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Supreme Court, U.S.
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In the Supreme Court of the United States

October Term, 1989

WEIL CERAMICS & GLASS, INC.,
a New York Corporation,

Petitioner,

vs.

BERNARD DASH and JALYN CORPORATION,
a New Jersey Corporation,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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QUESTIONS PRESENTED FOR REVIEW

1. Does use of a trademark outside the United States by an entity related to the American owner of the trademark exhaust all trademark rights under U.S. law?

2. Is it proper for a court to apply agency regulations which were promulgated pursuant to a Congressional statute as law in a civil action brought under the statute; specifically, was it proper for the court to apply the customs regulations as fully defining the scope of §526 in a civil action?

3. Is an owner of a U.S. trademark registration entitled to assert its "exclusive right to use the registered mark in commerce" as provided in 15 U.S.C. §1115(b) against the importation of products sold outside the United States by a related entity.

List of Companies

Pursuant to Rule 28.1

The parent corporation of Weil Ceramics & Glass, Inc. is Lladro Exportadora, S.A., and Weil Ceramics & Glass, Inc. has no subsidiary corporations other than wholly-owned subsidiaries.

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In the
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a New York Corporation,

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a New Jersey Corporation,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioner, Weil Ceramics & Glass, Inc., respectfully prays that a writ of certiorari be issued to review the judgement of the United States Court of Appeals for the Third Circuit entered in appeal nos. 86-5187 and 86-5207 on May 25, 1989.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Third Circuit has been reported at 11 U.S.P.Q.2d 1001. That opinion reverses a decision of the United States District Court for the District of New Jersey reported at 618 F. Supp. 700 (1985).

JURISDICTION

The judgment of the Court of Appeals for the Third Circuit was entered on May 25, 1989. This Court has jurisdiction by virtue of 28 U.S.C. §1254(1).

STATUTES, TREATIES AND REGULATIONS INVOLVED IN THE CASE

TREATIES

This case involves the Paris Convention for the Protection of Industrial Property as amended at Stockholm on July 14, 1967, and in particular:

Article 6(3)

A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.

Article 6 (quater) (1)

(1) When, in accordance with the law of a country of the Union, the assignment of a mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs, it shall suffice for the recognition of such validity that the portion of the business or goodwill located in that country be transferred to the assignee, together with the exclusive right to manufacture in the said country, or to sell therein, the goods bearing the mark assigned.

STATUTES

This case involves the following sections of the Lanham Act:

Section 32 (15 U.S.C. §1114)

(1) Any person who shall, without the consent of the registrant —

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

Section 33(b) (15 U.S.C. §1115(b))

(b) If the right to use the registered mark has become incontestable under §1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said §1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

. . . .

Section 526 of Tariff Act of 1930
(19 U.S.C. §1526)

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United

States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of §§81 and 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in §106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

. . . .

Injunction and damages

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of §§81 to 109 of Title 15.

. . . .

48 U.S.C. §1643

Section 1124 of Title 15, and §1526 of Title 19, shall not apply to importations into the Virgin Islands of genuine foreign merchandise bearing a genuine foreign trademark, but shall remain applicable to importations

of such merchandise from the Virgin Islands into the United States or its possessions; and the dealing in or possession of any such merchandise in the Virgin Islands shall not constitute a violation of any registrant's right under the Trade Mark Act [15 U.S.C.A. §1051 et. seq.].

19 C.F.R. §133.21
(See Appendix).

STATEMENT OF THE CASE

This case concerns the importation into the United States of goods manufactured outside the United States by affiliates of American corporations who own the U.S. trademark rights. Specifically, this case involves the importation of foreign-made goods not intended for sale in the U.S. by companies who are not authorized by the U.S. trademark owner to import the goods into the U.S.

The goods in issue are high quality porcelain figurines made by a Spanish manufacturer and sold under the trademark LLADRO. In 1963, the petitioner, Weil Ceramics & Glass, Inc., a New York corporation, began importation of LLADRO porcelain into the U.S., and became the exclusive U.S. importer and distributor of this product. At that time, LLADRO porcelain was practically unknown in the U.S. and Weil had no corporate affiliation with the Spanish manufacturer. Further, the Spanish manufacturer transferred the U.S. trademark rights for LLADRO to Weil and in 1966 Weil filed an application to register LLADRO as its trademark with the U.S. Patent and Trademark Office. On September 5, 1967, the U.S.

Patent and Trademark Office registered the mark LLADRO on the Principal Register. Approximately five years later Weil filed the declarations required by §§8 and 15 of the Lanham Act, 15 U.S.C. §§1058 and 1065, thus making the registration incontestable.

Weil, through its expenditures of time, money, and effort, built the name LLADRO from an unknown brand of porcelain to a very popular and desired brand of porcelain; Weil developed a significant demand for LLADRO porcelain through its marketing, promotional, and distributional efforts that it became an attractive target for unauthorized importers, known as gray market importers.

In 1973, the Spanish manufacturer acquired 50 percent of the stock of Weil. In 1977, the Spanish manufacturer acquired the remaining stock of Weil.

Starting approximately in the early 1980's when the value of the U.S. dollar was high relative to many foreign currencies, it became attractive to many international traders to engage in arbitrage with the purchase of goods abroad for their quick resale in the United States. Naturally, these gray market importers would select products which had a ready-made market in existence and which did not require any promotional or advertising efforts. When the demand for a certain product would wane, these traders would switch to whatever product was then popular.

Weil brought an action against Jalyn Corporation and Bernard Dash for (1) violation of Weil's exclusive right to use the LLADRO mark for porcelain in U.S. commerce as provided by §33(b) of the Lanham Act, 15 U.S.C. §1115(b); (2) for infringement of its federally registered mark by their use, without consent, of the

identical mark in U.S. commerce as provided by §32 of the Lanham Act, 15 U.S.C. §1114; and (3) for violation of Weil's exclusive right to import as provided by §526 of the Tariff Act (19 U.S.C. §1526) and §42 of the Lanham Act (15 U.S.C. §1124).

With respect to the goods imported and distributed by the respondents, it was stipulated in the district court that the respondents' goods were made by the Spanish manufacturer but that some of the goods imported and sold by the respondents were of lower quality than that imported and sold by Weil. The evidence presented to the district court by stipulation (Appendix D) was that the Spanish manufacturer made and sold an A quality product and a B quality product (B being lower in quality than A), that Weil only imported and sold A quality in the U.S., but that the respondents imported both A and B quality products.

After a period of discovery, the parties filed cross-motions for summary judgment. The district court awarded summary judgment against Weil stating that §33(b) of the Lanham Act did not create a private cause of action. The district court did not address the scope of §33(b) in the event a "private" cause of action did exist. The district court granted summary judgment for Weil on its claim of trademark infringement under §32 of the Lanham Act, and on its claim of unauthorized importation under §42 of the Lanham Act and §526 of the Tariff Act.

Jalyn appealed from the permanent injunction based on the summary judgments granted to Weil; and Weil appealed the final judgment awarded to Jalyn.

The court of appeals heard the parties' respective appeals and reversed the summary judgments awarded

to Weil. In reversing the summary judgement awarded to Weil under §526, the Third Circuit concluded that 19 C.F.R. §133.21 provides "an absolute exception" to protection under §526 when the U.S. owner of the trademark is wholly-owned by a foreign parent corporation. The Third Circuit applied the Customs regulations as if they were a Congressional statute without independently construing §526 and determining whether or not Weil, an admittedly American company, was the owner of the trademark as required by §526.

The Third Circuit also reversed Weil's summary judgment under §32 and §42 of the Lanham Act on the basis that the marks on the defendants' products were not a "reproduction, counterfeit, copy, or colorable imitation" or a "copy or simulation".

Finally, the court of appeals reversed the summary judgment awarded to the defendants under §33(b) of the Lanham Act on the grounds that §33(b) does grant a private right of action. However, the Third Circuit then concluded that §33(b) does not reach unauthorized parallel imports and remanded the claim to the district court with directions to grant a new summary judgment to defendants.

REASONS FOR GRANTING THE WRIT

In brief, the reasons for the Court to grant this petition are twofold. One, the issues and questions involved in this case are of great importance to those in the field of international trade and international marketing; and two, the opinions handed down by the appellate courts in gray market trademark cases have

contained conflicting analyses, decisions and results, which can not be reconciled.

1. INTERNATIONAL TRADE, MARKETING AND TRADEMARK RIGHTS

In today's world economy, companies, whether foreign or domestic, are establishing licensees, divisions, and subsidiaries in other countries, and these affiliated entities are either distributors of products made elsewhere or manufacturers of the products themselves. The products may be completely identical in quality, content, and labeling, or they may vary in one aspect or another. The way the products sold in each country differ or not is always a conscious decision made by the trademark owner, and is a function of the needs and desires of the consumers in each national market.

A further difference, from country to country, is the manner in which the products may be promoted, advertised, and presented to the consumer. In some countries the distribution of a product will require a great deal of advertising due to competitive conditions in that country. In other countries less advertising and promotion may be needed. The myriad circumstances and conditions which exist in the many countries in which a product is marketed requires that the entity in each country responsible for marketing the specific product make manufacturing, marketing, and other decisions based on its desire to make its product as successful as possible in that country.

During the last decade, especially during the years when the U.S. dollar had a high value relative to other

currencies, importers and exporters engaged in arbitrage by identifying products sold in the United States which have acquired a valuable reputation and were in high demand, and have purchased them from various unknown sources outside the United States and have resold the products in the U.S. for a quick turnaround profit. These importers do no advertising or promotion, or anything else to enhance the goodwill of the products they import. These importers have no long term interest in the brands they deal in; they only deal in the most popular brands and when the popularity of a particular brand wanes, they will move on to a new brand. Because these traders are not committed to any one particular brand, they have no incentive to maintain the goodwill associated with the trademark.

Because of the disruption and interference caused by the unauthorized importation of goods bearing the trademark owned by the U.S. companies, and the legitimate desire of businesses to decide where and how its products are distributed, it is critical for businesses to know with certainty what rights come with national trademark ownership and how they may legitimately structure their business so that they can manage the distribution of their products in the U.S.

2. CONFLICT IN THE CASES ON THE RIGHT OF A U.S. COMPANY TO PREVENT THE UNAUTHORIZED IMPORTATION OF PRODUCTS SOLD BY AN AFFILIATE OUTSIDE THE U.S.

Due to the innumerable factual permutations which can exist in a multi-national manufacturing/mar-

keting/distribution setting, there has admittedly been no direct conflict in the appellate decisions based on identical facts. However, there have been many decisions, some from the U.S. Supreme Court, and others from the appellate courts which do conflict in the principles set forth and the analyses used.

a. Conflict With Principles of Trademark Territoriality Enunciated by Supreme Court in *A. Bourgris & Co., Inc. v. Katzel*, 260 U.S. 689 (1923)

The Third Circuit's decision, although recognizing that *Katzel* has not been overturned, refused to recognize and give effect to the doctrine of trademark territoriality enunciated in that decision. In *Katzel*, credited with discarding the doctrine of trademark universality and adopting the doctrine of trademark territoriality, Justice Holmes stated that "[o]wnership of the goods does not carry the right to sell them with a specific mark". 260 *U.S.* at 692. Justice Holmes further stated, "It is the trademark of the plaintiff only in the United States and indicates in law . . . that the goods come from the plaintiff although not made by it". *Id.* *Katzel* has been recognized as adopting the doctrine of trademark territoriality.

The Third Circuit's decision is in conflict with the principles of *Katzel*, in that it ruled that "the Court's conclusion in *Katzel* does not represent the establishment of a broad 'territoriality theory' applicable to every instance in which a domestic company acquires the United States trademark for a foreign manufactured good". (Appendix B21) The Third Circuit continued by saying, "We read that decision as

creating an exception to the general application of trademark law in order to protect adequately the interests of domestic trademark holders such as Bourgois". (Appendix B21)

b. Conflict With The Definition of Copy or Simulate Applied In *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923)

In this decision, the Supreme Court answered affirmatively the questions certified at 292 F. 1013, 1014 (2d. Cir. 1922) as to whether so called genuine products could bear marks which "copy or simulate" a mark registered in the U.S. These questions were answered under §27 of the Trade-Mark Law of 1905, the predecessor to §42 of the Lanham Act.

The Third Circuit determined that marks on products made by the foreign manufacturer for sale outside the U.S. can not be considered to be copies or simulations of the mark registered in the U.S. under §42 of the Lanham Act. However, §1643 of Title 48 clearly recognizes that §42 of the Lanham Act and §526 of the Tariff Act do reach genuine goods and by logical implication recognizing that such genuine goods bear marks which copy or simulate.

Accordingly, the Third Circuit's analysis that "genuine goods" can not bear marks that "copy or simulate" is in conflict with this Court's decision in *Aldridge*.

As further evidence of conflict on this issue is the recently decided case of *Lever Brothers Co. v. U.S.*, 11 USPQ 2d 1117 (D.C. Cir. 1989). In this action, Lever Brothers, a U.S. corporation, sought a preliminary

injunction against the Customs Service's application of the affiliate exception on the ground that it violated §42 of the Lanham Act. Lever Brothers was seeking to have Customs prevent the unauthorized importation of products made by a related foreign corporation bearing its SUN and SHIELD trademarks. The D.C. Circuit tentatively reversed the denial of the preliminary injunction and remanded for further briefing. In doing so the D.C. Circuit stated:

> Customs' central thesis, that affiliation between the foreign producer and domestic markholder automatically defines the foreign goods as genuine, draws on an important truth — that a trademark holder cannot infringe its own mark. Thus, if a U.S. markholder itself imports goods (or licenses another to do so), the markholder's conduct of or authorization of the importation makes the goods authentic, whether they are better, worse, or the same as the U.S. markholder's domestic products. To the extent that the affiliate exception extends this principle to goods imported into the U.S. by companies affiliated with the U.S. markholder, it does nothing more than treat the two companies as being constructively one for infringement purposes. As such it seems unobjectionable.
>
> But the exception contained in 19 C.F.R. §133.21(c)(2) does more. Merely on the basis of affilation between the U.S. markholder and the foreign producer, it extends the nonviolation that is implicit in importation by the markholder or with its consent to a radically

> different matter, imports *by third parties.* Inferring non-violation from that relation seems no more plausible than an inference of consent to import from the U.S. markholder's licensing production abroad, which the *Artworks* and *Dial* courts obviously rejected.

Lever Brothers, 11 USPQ 2d at 1124.

Implicit in the opinion of the D.C. Circuit is that foreign made goods could be deemed to bear marks that "copy or simulate" under §42 of the Lanham Act notwithstanding that the foreign goods were made by a related corporation.

c. Conflict With Reasoning In *K Mart Corp. v. Cartier, Inc.*, 108 S.Ct. 1811 (1988)

In *K Mart*, this Court's opinion dealt exclusively with the validity of U.S. Customs Regulations, 19 C.F.R. §133.21, in light of 19 U.S.C. §1526, §526 of the Tariff Act of 1930. The Court concluded that §526 was ambiguous in two respects, and once having found the statute to be ambiguous, the Court then considered whether the agency regulations were a permissible construction of the statute. The Court identified, for purposes of discussion, three contexts in which gray market or parallel imports could arise. Case 2a was described as being a U.S. subsidiary of a foreign manufacturer owning the U.S. trademark rights. Section 526 clearly limits its protection to trademarks "owned by" corporations created within the United States. The Court held that the phrase "owned by" was ambiguous in a U.S. subsidiary/foreign parent situation. "This ambiguity arises from the inability to discern, from the statutory language, which of the two

entities involved in case 2a can be said to 'own' the U.S. trademark if, as in some instances, the domestic subsidiary is wholly-owned by its foreign parent." *K Mart*, 108 S.Ct. at 1818.

Accordingly, the Court expressly concluded that in a parent/subsidiary situation it is unclear who actually owns the U.S. trademark. The Court *did not* conclude that a foreign parent shall be deemed to own its subsidiary's trademark as a matter of law, notwithstanding that it permitted the Customs regulations to except from seizure goods made by the parent. However, that is the very conclusion reached by the Third Circuit when it concluded, "We read §133.21 as providing an *absolute* exception from §526 for the import of parallel goods in the case 2a scenario and we read *K Mart* as upholding that construction." (Appendix B15)

It is petitioner's position that the Third Circuit's application of the Customs Regulations as law, rather than interpreting and applying §526 to the facts of the case and determining, based on the facts, whether Weil does or does not own the U.S. trademark rights, conflicts with this Court's decision in *K Mart*.

d. Conflict With Second Circuit and Federal Circuit Decisions Regarding Scope of §526 of Tariff Act of 1930

As described above, the Third Circuit treated and applied the Customs regulations as a statute by concluding that the regulations provided an "absolute exception" against protecting a U.S. subsidiary of a foreign corporation. The Third Circuit held, in essence,

that the Customs regulations define the full scope of §526. This is in direct conflict with *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.* 816 F.2d 68 (2d Cir. 1987), *Olympus Corporation v. United States*, 792 F.2d. 315 (2d Cir. 1986), and *Vivitar Corporation v. United States*, 761 F.2d. 1552 (Fed. Cir. 1985).

In a long and well-reasoned opinion, the Federal Circuit, in *Vivitar*, held "the current regulations to be valid but not controlling with respect to the scope of protection of 19 U.S.C. §1526(a)." *Vivitar*, 761 F.2d. at 1570. Earlier in its decision the Court stated, "Regardless of whether Customs excludes or does not exclude particular imports, the courts must independently determine whether the importation is or is not precluded by the statute." *Vivitar*, 761 F.2d. at 1569.

In *Olympus*, the Second Circuit stated, "Customs' interpretation of the statute does not limit the reach of protection of section 526; it only limits Customs' obligation to enforce the section by excluding goods. The markholder still has rights under the statute: he may pursue private remedies against the importer under section 526(c), notwithstanding Customs' failure to exclude the goods." *Olympus*, 792 F.2d at 320. This position was affirmed by the Second Circuit in *Original Appalachian Artworks* wherein the court found a violation of §526 in a private action while recognizing the validity of the Customs regulations which permitted the goods to be imported into the U.S.

In *Vivitar* and *Olympus*, the issue was the validity of the Customs regulations; and in both cases, the appellate court upheld the regulations while stating

that the regulations do not define or limit the scope of the statute, §526.

e. Marks on Goods Manufactured and Authorized for Foreign Sale Can Be a "Reproduction, Counterfeit, Copy or Colorable Imitation" Violative of §32 of the Lanham Act

The Third Circuit ruled that the defendants did not violate §32 of the Lanham Act on the grounds that the goods imported by the defendants did not bear a "reproduction, counterfeit, copy, or colorable imitation" of the registered mark. The Court reasoned that because the marks were placed on the products by an entity related to the U.S. trademark registrant, Weil, they could not be considered a "reproduction, counterfeit, copy, or colorable imitation."

However, in *Original Appalachian Artworks*, the Second Circuit found a violation of §32 of the Lanham Act by the defendant's importation of products made by a foreign licensee under a territorial license notwithstanding that the plaintiff owned the world-wide trademark rights, and the marks were placed on the products with the plaintiff's explicit permission.

It should be noted that the Supreme Court in *K Mart*, invalidated the Customs regulation, 19 C.F.R. §133.21(c)(3), directed to goods made by an unrelated foreign licensee. The Supreme Court invalidated this regulation on the grounds that under all possible interpretations of §526, Customs was required to exclude these goods. However, the Supreme Court failed to recognize that in situations where there is an

unrelated foreign licensee, the U.S. and foreign trademark rights will undoubtedly be owned by the same entity or by corporately-related entities. In *Original Appalachian Artworks*, all worldwide trademark rights were owned by the same entity, 816 F.2d at 73, and under 19 C.F.R. §133.21(c)(1) and (2), Customs would therefore still permit the goods to be imported. Accordingly, what the Supreme Court intended to accomplish by invalidating §133.21(c)(3), is being prevented by the continued presence of exceptions (c)(1) and (c)(2).

In conclusion, the Second Circuit's decision in *Original Appalachian Artworks* recognized that foreign-made goods made with the explicit permission of the U.S. trademark owner could still be deemed to bear marks which violate §32 of the Lanham Act by their unauthorized importation into the U.S.

f. Conflict With Second Circuit re Right to Control Quality of Goods Entering U.S. Commerce

The Second and Third Circuits have reached contrary results with regard to the trademark registrant's control of the quality of goods entering U.S. commerce under the provisions of the Lanham Act. The Second Circuit has recognized that the U.S. trademark registrant has the right to control the quality of goods entering U.S. commerce bearing its mark. *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986). On the other hand, the Third Circuit has denied the petitioner any such control.

Judge Becker, in his concurring opinion, acknowledged the stipulation entered into by the parties which described the three levels of quality of LLADRO porcelain, that Weil only imported and sold the highest quality, and that the defendants imported and sold a lower quality of LLADRO porcelain.

The Third Circuit opinion refused to recognize Weil's right to control the quality of products sold in the United States, and Judge Becker in his concurring opinion went so far as to say that if any confusion or damage is suffered by Weil due to the sales outside the United States of lower quality merchandise then Weil should bear the self-inflicted damage. This concept is foreign to U.S. trademark law.

As recently stated by the Second Circuit in preventing the unauthorized importation of foreign-made goods:

> One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark. . . . For this purpose the actual quality of the goods is irrelevant; it is the control of the quality that a trademark holder is entitled to maintain.

El Greco Leather Products, Co., Inc. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986).

Whereas the Second Circuit implicitly recognized that the commerce controlled by the Lanham Act is U.S. commerce, i.e. commerce which may lawfully be regulated by Congress, as defined in the Lanham Act (15 U.S.C. §1127), the Third Circuit's opinion treats

the concept of "commerce" as international commerce throughout the world.

Accordingly, these two decisions conflict in principle with respect to the right of a U.S. trademark owner to control the quality of the goods entering the U.S., and with respect to the scope of commerce within the jurisdiction of the Lanham Act.

CONCLUSION

For the reasons presented above, this case presents an excellent opportunity to resolve unsettled but critically important issues of trademark and international law; and accordingly, it is respectfully requested that the petition for writ of certiorari be granted.

Respectfully submitted,

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PROOF OF SERVICE BY MAIL

State of California

ss.

County of Los Angeles

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and a resident of the County of Los Angeles, over the age of eighteen (18) years and not a party to the within action or proceeding; that my business address is 10835 Santa Monica Boulevard, Suite 200, Los Angeles, California 90025; that on July 28, 1989, I served the within *Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit* in said action or proceeding by depositing true copies thereof, enclosed in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California, addressed as follows:

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I declare under penalty of perjury that the foregoing is true and correct. Executed on July 28, 1989, at Los Angeles, California.

Claude A. Lagardere
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NOTARY PUBLIC - CALIFORNIA
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APPENDIX A

APPENDIX A

WEIL CERAMICS & GLASS, INC. a New York Corporation,	)	UNITED STATES DISTRICT COURT DISTRICT OF NEW JERSEY
Plaintiff,	)	
vs.	)	Civil Action 84-2157D
BERNARD DASH and JALYN CORPORATION, a New Jersey, Corporation,	)	OPINION
Defendants.	)	

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I. INTRODUCTION

The instant trademark infringement action concerns the importation and sale of what is commonly referred to as "grey market" goods. Grey market goods are goods produced by a foreign manufacturer bearing the manufacturer's trademark which are legally purchased abroad under a particular trademark and are sold in competition with goods of the United States trademark owner of the same mark. *Vivitar Corp. v. United States*, 761 F.2d 1552, 1555, 225 USPQ 990, 991 (Fed. Cir. 1985); *Parfums Stern, Inc. v. United States Customs Service*, 575 F.Supp. 416, 418 (S.D. Fla. 1983). The goods are also referred to as "parallel imports" where the United States trademark owner is an importer of the goods as well. *Vivitar*, 761 F.2d 1555, 225 USPQ at 991.

Plaintiff Weil Ceramics & Glass, Inc. ("Weil") filed this action against the defendants Bernard Dash and Jalyn Corp. asserting claims under the Lanham Trademark Act of 1946 ("the Act"), as amended, 15 U.S.C. §1051 *et seq.* The case is now before the Court on cross-motions for summary judgment.

II. FACTS

A. The Parties

Weil is a New York corporation in the business of importing and distributing fine giftware. Defendant Jalyn Corp. is a New Jersey corporation which engages in the purchase and sale of giftware and other items. Defendant Dash is the president of Jalyn and provides general managerial duties to the corporation. Dash and

his wife are the current stockholders and the sole owners of Jalyn.

B. The Trademark

In 1963 Weil began importing porcelain and ceramic vases, statuettes and figurines bearing the trademark "Lladro" and a distinctive flower logo placed on the base of the goods. The Lladro trademark was placed on the goods by the manufacturer in Spain, Lladro, S.A., a Spanish corporation. In 1966, Lladro S.A. designated Weil as the exclusive United States distributor of Lladro porcelain, and granted Weil the right to obtain a United States trademark for the Lladro mark in its own name. Exhibit 5 to Weil's reply brief.

On February 8, 1966, Weil filed an application with the United States Patent and Trademark Office ("USPTO") to register the trademark "Lladro" for porcelain and ceramic ware. On September 5, 1967, the USPTO registered the trademark on the Principal Register. Weil subsequently filed an affidavit with the USPTO under Sections 8 and 15 of the Act, 15 U.S.C. §§1058 and 1065, asserting that the mark was still in use and had been in continuous use for five consecutive years. This affidavit was accepted and filed by the USPTO on December 21, 1972.

The acceptance and filing of Weil's combined Section 8 and 15 affidavit by the USPTO gave Weil significant rights over the Lladro trademark in the United States. Under Section 8, Weil's registration of the mark remains in full force for 20 years, or until September 5, 1987. 15 U.S.C. §1058(a). Under Section 15, Weil's right to use the mark became "incontestable." 15 U.S.C. §1065. When a mark is

incontestable, its validity can no longer be challenged in court, except in the situations outlined in the statute. *See* Callman, *Unfair Competition, Trademarks & Monopolies*, §25.06 (4th Ed. 1983 & 1984 Cum. Supp.) (hereafter "Callman").

C. Defendants' Actions

It is undisputed that since 1982 defendants have distributed and sold porcelain products bearing the Lladro trademark in the United States without Weil's permission or authorization. The parties have stipulated that the goods which defendants sell are genuine Lladro merchandise and are not a copy of imitation. See Stip. of Facts at 8(b). Defendants acquired these goods from a foreign source on the grey market and imported them for sale in the United States. The goods are apparently obtained through retailers and distributors which are customers of Lladro, S.A. *See* Dash Aff. at ¶4.

D. The Complaint

Weil filed a three court complaint on June 1, 1984. Subject matter jurisdiction is based on 15 U.S.C. §1121 (granting original jurisdiction for all actions arising under the Act) as well as 28 U.S.C. §§1331 and 1338(a). Weil's complaint seeks declaratory and injunctive relief as well as monetary damages. The first count alleges that defendants' acts violated Weil's exclusive right to use the Lladro mark under §33(b) of the Act, 15 U.S.C. §1115(b). The second count asserts that defendants' conduct constituted infringement of Weil's trademark in violation of §32(1)(a) of the Act, 15 U.S.C. §1114(1)(a). Finally, the third count alleges that

defendants violated Weil's exclusive right to import products bearing the Lladro trademark under 15 U.S.C. §1124 and 19 U.S.C. §1526. Since the cross-motions are addressed to all three counts, I will discuss each claim *seriatim*.

III. DISCUSSION

A. Section 33(b) - Exclusive Right to Use

Section 33(b) of the Act, 15 U.S.C. §1115(b), provides, in pertinent part:

> (b) *If the right to use the registered mark has become incontestable under section 1065* of this title, the registration shall be *conclusive evidence* of the registrant's *exclusive right to use* the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established: . . . (Emphasis added.)

Since defendants have not disputed the incontestability of the Lladro mark, Weil asserts that it may maintain an action under §33(b). Weil further asserts that an action under §33(b) does not require a showing of confusion, deception or mistake, as would an action under §§32, 42 or 43 of the Act.

I need not decide whether a showing of confusion is required under §33(b) since I conclude that that section does not create a private cause of action. Obviously, a cause of action is not expressly stated in the statute.

Thus, if a cause of action exists under the statute it must be implied.

In *Cort v. Ash*, 422 U.S. 66, 78, 95 S.Ct. 2080, 2087, 45 L.Ed.2d 26 (1975), the Supreme Court listed four relevant criteria in determining whether a private right of action should be implied under a federal statute. In *Touche Ross & Co. v. Redington*, 442 U.S. 560, 568, 99 S.Ct. 2479, 2485, 61 L.Ed.2d 82 (1979), the Court noted that the four *Cort* factors were relevant only in determining Congressional intent since implication of a private right of action was a matter for the legislature and not the courts. "[O]ur task is limited solely to determining whether Congress intended to create the private right of action asserted." *Id. See also Transamerica Mortgage Advisors v. Lewis*, 444 U.S. 11, 23-24, 100 S.Ct. 242, 249, 62 L.Ed.2d 146 (1979). Since the question is one of statutory construction, *Canon v. University of Chicago*, 441 U.S. 677, 688, 99 S.Ct. 1946, 1952, 60 L.Ed.2d 560 (1979), the court should consider the language of the statute, the legislature history and the statutory scheme. *See Touche Ross*, 442 U.S. at 568-71, 99 S.Ct. at 2485-86.

The language of §33(b) does not establish any intent by Congress to create a cause of action. The statute makes an incontestable mark conclusive *evidence* of an owner's right to use the mark. It merely states the evidentiary status of an incontestable mark. Under §33(a) a registered mark is *prima facia* evidence of the owner's right to use the mark, while under §33(b) an incontestable mark becomes conclusive evidence. More importantly, the statutory scheme provides persuasive evidence that §33(b) was not intended to create an implied right of action. Section 32(1)(a) expressly provides that any person who *uses* a copy of a

registered mark shall be liable in a civil action. 15 U.S.C. §1114(1)(a). Thus, §32 provides an effective remedy for the owner of a mark which has been improperly used by another, whether or not the mark is incontestable. If §33(b) had been intended to create a private right of action, then there would have been no need for §32(1)(a). Thus, since §32 expressly provides a remedy, the statutory scheme effectively negates any Congressional intent to create a cause of action under §33(b). Finally, if there is anything in the voluminous legislative history of the Lanham Act which establishes that a private right of action was intended under §33(b), I have not been referred to it. In light of its express language and the statutory scheme, however, any such evidence would not be persuasive.

Therefore, I conclude that Weil's infringement action will rise or fall under §32. *Cf. U.S. Jaycees v. Philadelphia Jaycees*, 639 F.2d 134, 137 n.3 (3d Cir 1981) (stating that incontestability is relevant in determining "strength" of trademark but analyzing infringement action under §32). The recent decision of the Supreme Court in *Park'N Fly, Inc. v. Dollar Park and Fly, Inc.*, ___ U.S. ___, 105 S.Ct. 658, 83 L.Ed.2d 582 (1985), does not require a different conclusion. In *Park'N Fly*, the court reversed the Ninth Circuit which had held that §33(b) could only be used defensively (i.e., a registrant could use the incontestable status of its mark as conclusive evidence only when defending that mark in a cancellation proceeding but not to establish conclusive evidence of incontestability in a trademark infringement action brought by the registrant against another). The Supreme Court held that §33(b) could be used either offensively (by the registrant in an infringement action) or defensively. The Court did not, however, hold that §33(b), in and of

itself, provided a private right of action. Since §33(b) does not create such an implied right of action, the first count of Weil's complaint must be dismissed for failure to state a claim upon which relief can be granted.

B. Section 32(1)(a) - Unauthorized Use

The second count of Weil's complaint states a claim for trademark infringement under §32(1)(a), 15 U.S.C. §1114(1)(a), which reads in pertinent part:

> (1) Any person who shall, without the consent of the registrant-
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive;
> ***
>
> shall be liable in a civil action by the registrant for the remedies hereinafter provided.

In order to prevail on its claim under §32(1)(a), Weil must show that there is no genuine issue of material fact that: 1) it owns the United States trademark for Lladro, 2) defendants used the mark in United States commerce without Weil's consent and 3) defendants' use is likely to cause "confusion." Defendants have conceded the first two points, but vigorously contest the third.

1. Confusion - Genuine Goods

Defendants' position is that the importation and sale of *genuine* goods simply cannot cause "confusion." I conclude that it may. However, a brief review of the history of the American law of trademarks and of the Act itself is required in order to explain why.

In *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), plaintiff had purchased from a French manufacturer the business, goodwill and United States trademarks for face powders produced and sold by the manufacturer. Plaintiff then brought suit to restrain defendant from importing and selling the same goods which defendant had purchased from the manufacturer in France. Defendant sold the goods in the United States in packages closely resembling plaintiff's. The Court began its analysis noting: "There is no question that the defendant infringes plaintiff's rights unless the fact that her boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form." *Id.* at 691, 43 S.Ct. at 245.

The Court held that defendant's conduct constituted infringement. The Court considered it beyond doubt that defendant would have infringed on plaintiff's mark if the goods had been sold with the original label intact. The Court noted that a United States patent would certainly prevent defendant's infringement and found that the "monopoly" of a trademark was no less complete. "It is the trade mark of the plaintiff only in the United States and indicates in law that the goods came from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought. It stakes the

reputation of the plaintiff upon the character of the goods." *Id.* at 692, 43 S.Ct. at 245 (citations omitted). Thus, the Court upheld the district court's grant of a preliminary injunction.

Katzel has been recognized by courts and commentators as the decision which established the "territoriality principle" of American trademark law. *See Bell & Howell v. Masel Supply Co.*, 548 F.Supp. 1063, 1066 (E.D.N.Y. 1982), preliminary injunction vacated, 719 F.2d 42 (2d Cir. 1983) ("*Bell & Howell*") and *Osawa & Co. v. B&H Photo*, 589 F.Supp. 1163, 1171 (S.D.N.Y. 1984) ("*Osawa*"). According to this principle, the protection which a trademark receives in a particular country depends upon the law of that country. Thus, the effects of registering a trademark in a foreign country do not extend beyond the borders of that country. The "territoriality principle" recognizes that a trademark has a separate legal existence in each country, and that a trademark does not specify the "source of origin" of the product. Rather, it symbolizes the goodwill of the domestic markholder whose reputation backs the particular product in that territory. Thus, even if a trademark correctly identified the manufacturer of the goods, it would still be an infringing product if it deceived the public into believing that the domestic markholder's goodwill stood behind the product.

The contrary view is embodied in the "universality principle" which held that merchandise bearing a lawful foreign trademark could not be deemed an infringing product in another country. This would be true even when a person in the other country had the exclusive right to use the trademark and distribute the product in that country. Since the goods are genuine,

the public would not be deceived as to their "source of origin," i.e., the manufacturer.

The territoriality principle of American trademark law established in *Katzel*[1] recognized that an importer of goods may own United States trademark rights even though the goods had been manufactured in a foreign country. *See, e.g., Avedis Zildjian Co. v. Fred Gretsch Mfg. Co.*, 251 F.2d 530, 532 (2d Cir. 1958). As long as there has been an assignment of the manufacturer's rights in the United States and an agreement that the mark may be registered by the importer, the importer may own the United States trademark rights in the mark. McCarthy, *Trademarks and Unfair Competition*, 2d Ed., 16.16B (1984). *See, e.g., Trademark Manual of Examining Procedure at* §1201.04(a) (attached to Weil's Reply Brief at Exhibit 1). After such an assignment, genuine goods imported by the foreign manufacturer and sold in competition with the goods of the United States markholder would infringe since they would cause confusion as to the source of the goods. *Katzel*, 260 U.S. at 692, 43 S.Ct. at 245. Thus, according to *Katzel* genuine goods may cause confusion.

The language and history of §32 provide additional support for my conclusion. In its original form, it required a showing that the infringing use was "likely to cause confusion, or to cause mistake or to deceive

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[1] The territoriality principle has also been recognized in the Paris Convention for the Protection of Industrial Property ("Paris Convention"). *See generally* Article 6. Since the United States is a signatory to and a member of the Paris Convention, it has the force of law in the United States under Article 6 of the United States Constitution. *Davidoff Extension S.A. v. Davidoff International, Inc.*, 221 USPQ 465, 467 (S.D. Fla. 1983).

purchasers as to the *source of origin* of such goods or services." (Emphasis supplied). Congress amended §32 in 1962 deleting the source of origin requirement "thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake or deception of any kind, not merely of purchasers nor *simply as to source of origin.*" *Syntex Laboratories, Inc. v. Norwich Pharmacal, Co.*, 437 F.2d 566, 568 (2d Cir. 1971) (emphasis added). This amendment made it clear that products causing confusion as to the identity of the company standing behind and insuring the quality of the trademarked goods would also be actionable under §32. *Bell & Howell*, 548 F.Supp. at 1071. As the district court explained in *Bell & Howell*, "source of origin" did not refer only to the product's manufacturer. The courts (and the Lanham Act) have always recognized that *merchants* as well as manufacturers could be trademark owners. *Id.* at 1069. *See also* 15 U.S.C. §1127. Even prior to the 1962 amendment, origin merely denoted the "party responsible for exercising judgment respecting the quality of the goods it distributes to the public" and not the manufacturer. 548 F.Supp. at 1070. *See also El Greco Leather Products Co. v. Shoe World, Inc.*, 599 F.Supp. 1380, 1391 (E.D.N.Y. 1984). Congress' deletion of the "source of origin" language merely clarified this fact.

While relatively few cases have confronted this issue and the courts have split, I conclude that the better view is that genuine goods may cause confusion. *See Katzel*, 260 U.S. at 692, 43 S.Ct. at 245; *see also Osawa*, 589 F.Supp. at 1170-71 and cases cited therein. *But cf. Bell & Howell*, 719 F.2d at 46 (vacating preliminary injunction concluding that "irreparable injury may well not be present herein since there would appear to

be little confusion, if any, as to the origin of the goods and no significant likelihood of damage to [plaintiff's] reputation since thus far it has not been shown that [defendant's] goods, which have a common origin of manufacture with [plaintiff's] goods, are inferior to those sold by [plaintiff] and are injuring [plaintiff's] reputation."); *Monte Carlo Shirt, Inc. v. Daewoo Intern.*, 707 F.2d 1054, 1058 (9th Cir. 1982) (holding that under California law confusion was not possible where infringing goods were genuine); *DEP Corp. v. Interstate Cigar Co., Inc.*, 622 F.2d 621, 622 n.1 (2d Cir. 1980) (stating in dicta that it would appear "anomalous" that an infringement action would lie where the product sold is genuine); *El Greco Leather Products*, 599 F.Supp. at 1394 (holding that unauthorized sale of genuine goods could not give rise to likelihood of confusion necessary to maintain federal trademark infringement action). The cases which have concluded that genuine goods cannot cause confusion are in my view incorrect. They implicitly rely on a principle of trademark law which has long since been rejected, *see Katzel, supra*, and are based on a simplistic interpretation of the confusion requirement which cannot be squared with the Act. While the Third Circuit has not addressed the precise issue, I note that *Katzel* has never been overruled and thus remains good law. Therefore, I conclude that defendants' importation and sale of Lladro products may cause confusion under §32.

2. Exhaustion Doctrine - Separate and Independent Goodwill

The following facts are not disputed. Until his death in the mid 1960's, Max Weil was the sole owner of Weil Ceramics. After Weil's death, the corporation was

owned by three individuals, including Stanley Nagler. In 1973, 50 percent of Weil's stock was acquired by Lladro S.A. with Nagler retaining the remaining 50 percent. Weil then assigned all United States rights in the Lladro mark to Lladro S.A. In 1977, Lladro Exportadora S.A., a sister corporation of Lladro S.A. also owned by Sodigei, S.A., acquired all outstanding shares of Weil from both Lladro S.A and Nagler. In 1983, Lladro S.A. then assigned all United States rights in the Lladro mark back to Weil. *See* Weil Reply Brief at Exhibit 7.

Defendants argue that even if genuine products may cause confusion there is no confusion in the present case because Weil has failed to develop a separate and independent goodwill for Lladro products in the United States. Pointing to the fact that Lladro S.A. and Weil share the same corporate parent, Sodigei, S.A. of Spain, defendants argue that Weil is merely a conduit in an international distribution chain for Lladro products. "Since Weil and Lladro S.A. are one and the same for all practical purposes, once the goods have been released into commerce anywhere in the world, Weil has constructively enjoyed the benefit of its ownership of the mark Lladro." Defendants' Opposition Brief at 10-11. Defendants do not argue that the common corporate ownership of Weil and Lladro S.A. in and of itself precludes Weil from bringing a trademark infringement action. Rather, they simply contend that in the present case there is no likelihood of confusion since the goodwill behind the Lladro trademark in the United States is identical to the goodwill behind the Lladro mark in Spain.

Defendants argue that the "exhaustion doctrine" of trademark law demands that Weil establish a separate

and independent goodwill for Lladro products in the United States.

> Under this doctrine, as applied within the borders of a sovereignty, a markholder may no longer control branded goods after releasing them into the stream of commerce. After the first sale, the brandholder's control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the markholder (as long as they do not represent themselves as authorized agents).

Osawa, 589 F.Supp. at 1173-74.

When applied to international trade, the exhaustion doctrine "seemed to suggest that once the original mark owner had lost control of the marked goods by releasing them into commerce, his assignee in a foreign country could not logically own rights superior to those of the assignor. The right of control seemed exhausted." *Id.* at 1174. Thus, defendants contend that Lladro S.A. exhausted its rights in the mark when it released its goods into the stream of commerce. Since Weil, Lladro S.A.'s assignee, cannot have superior rights to its assignor, defendants conclude that Weil's rights have been exhausted as well.

Relatively few cases have considered the applicability of the exhaustion doctrine when the United States markholder is related to the foreign markholder. In *Bell & Howell, supra*, plaintiff held the United States trademark rights and was the exclusive importer of certain Mamiya photographic equipment. Ninety-three percent of plaintiff's stock was owned by Osawa-USA,

which was in turn wholly owned by Osawa-Japan, the exclusive worldwide distributor of Mamiya equipment. The remaining 7% of plaintiff's stock was owned by Mamiya Co., the manufacturer of these goods and the owner of the identical mark in Japan. Thirty percent of Mamiya's stock was owned by Osawa-Japan. Defendant imported and sold in the United States without plaintiff's authorization genuine Mamiya products which defendant had purchased on the grey market. Plaintiff moved for a preliminary injunction.

Defendant argued that there could be no likelihood of confusion between goods imported by them and goods sold by plaintiff. Defendant distinguished *Katzel* on the ground that plaintiff in that case was not related to the foreign manufacturer and originator of the trademark. Defendant argued that where the American mark owner was subject to common ownership and control with the owner of the mark in foreign nations, or formed part of a unified international enterprise, there could be no likelihood of confusion. Defendant presented evidence that: 1) plaintiff's board was comprised of three directors of Osawa-Japan and one of Mamiya Co., 2) plaintiff received financial support from Osawa-Japan, 3) plaintiff sent financial reports to Osawa-Japan, and 4) Osawa-USA, Osawa-Japan's wholly-owned subsidiary, and plaintiff filed consolidated tax returns.

Plaintiff opposed defendant's attempt to pierce the corporate veil and lump it, Osawa-Japan and Mamiya Co. into a single international enterprise. Plaintiff asserted that the business of importing the Mamiya equipment into the United States belonged to plaintiff and not Osawa-Japan, notwithstanding the close corporate ties of the companies. Plaintiff presented

evidence: 1) that it determined the terms and conditions of the warranty on the equipment, 2) that it included an English language instruction booklet with the equipment, 3) that plaintiff was the warrantor of the product, and 4) that plaintiff had expended substantive sums advertising in the United States and establishing a nationwide dealer network.

After reviewing the concept of goodwill and the territoriality principle, *Id.* at 1069-70, the court considered the related customs and trademark laws, 15 U.S.C. §1124 and 19 U.S.C. §1526 (discussed *infra* at Section III C), which are directed against the importation of foreign-made goods bearing United States trademarks. After thoroughly analyzing the issues, the court concluded that there was a substantial likelihood of confusion.

> The business of selling MAMIYA goods in the United States is the plaintiff's business. It is the legitimate owner of the MAMIYA marks. Its ownership of those marks, conversely, "indicates in law," *Bourjois v. Katzel, supra*, 260 U.S. at 692, 43 S.Ct. at 245, that the goods came from plaintiff. It is plaintiff that defines the warranty and provides the repair services for the cameras it sells. The cameras defendant sells lack that warranty. No proof supports defendant's contention that the public associates the MAMIYA marks with the Japanese manufacturer, even assuming that such proof could alter the legal consequence of the assignment of the marks to plaintiff. For it must be recognized that plaintiff is not a mere shell but the legitimate and actual owner of the business of selling

> MAMIYA medium format products in the country.

Id. at 1079.

Turning to defendant's argument that there could be no confusion when plaintiff formed part of an international organization distributing the same product, the court found that plaintiff's business in the United States was different from that of both Osawa-Japan and Mamiya Co. "It is plaintiff's warranty and assurances of quality that are signified by the Mamiya marks in this country. Defendant's use of those marks carries with it none of these assurances." Thus, the court found a substantial likelihood of confusion and granted a preliminary injunction restraining defendant's sale of Mamiya products.

The Second Circuit vacated the preliminary injunction, finding insufficient factual support for the district court's finding of a likelihood of confusion. 719 F.2d 42, 45-46 (1983). In doing so, the court expressed skepticism that genuine goods could ever cause confusion as to the source of the goods. *Id.* at 46. As I have previously noted, however, I do not share the Second Circuit's skepticism that genuine products cannot cause confusion. *See supra*, at 704-706. I believe that they may. Therefore, the Second Circuit's opinion in *Bell & Howell* is not persuasive on the issue of separate and independent goodwill. Its holding is limited to the issue of irreparable injury which the district court did not discuss in granting the injunction. 719 F.2d at 46.

The second case which discussed the concept of a separate and independent goodwill was *Osawa*. The plaintiff in *Osawa* was the same as the plaintiff in *Bell & Howell*. Only the corporate name had changes. In

Osawa, the United States Customs Service granted plaintiff an order of exclusion barring the unauthorized importation of goods bearing the Mamiya mark. Defendants allegedly imported certain equipment in violation of the Customs order of exclusion. Plaintiff moved for a preliminary injunction. The preliminary injunction hearing took place after the Second Circuit's decision in *Bell & Howell* and plaintiff offered "substantial proofs" of irreparable harm. 589 F.Supp. at 1165. Judge Leval granted plaintiff's motion specifically under the customs laws, 19 U.S.C. §1526, but also noted that an injunction would be warranted under the trademark laws as well. *Id.*

Although Osawa-Japan owned a controlling interest of plaintiff's stock, the court found that plaintiff functioned as a separate legal entity. The court also found that plaintiff through advertising and promotion had successfully developed goodwill in the Mamiya marks. *Id.* at 1165. Plaintiff maintained a stock of peripheral equipment designed to meet the needs of its customers. It purchased advertising, organized seminars and offered rebates on Mamiya products. Plaintiff distributed its equipment only through authorized dealers who demonstrated a willingness to carry a full line of stock to service customers' needs. Plaintiff devoted care to handling and inspecting Mamiya products, and offered free warranty repair. The court also noted that plaintiff provided warranty services for grey market goods as well as for its own authorized merchandise in order to promote the continued goodwill of the Mamiya mark.

After determining that irreparable injury would occur without an injunction and that the balance of hardships weighed in plaintiff's favor, the court turned

to plaintiff's likelihood of success on the merits. Although much of the court's analysis focused on the customs laws (*see infra* Section III C), the court discussed the "exhaustion" doctrine of trademark law. Defendants argued that plaintiff could no longer exert control over the Mamiya mark once the goods were sold in international commerce bringing a profit to the original markholder in Japan. Judge Leval recognized that in spite of the territoriality principle there might "arguably" be no infringement where the assignee of the mark in the foreign country had not developed a "separate, factually independent goodwill." *Id.* at 1174. "If the United States mark represents nothing more than a foreign outpost of the goodwill associated with the original mark, it might well be argued that exhaustion has taken place with the release into commerce and that no infringement occurs on unauthorized importation." *Id. citing* Derenberg, *Territorial Scope and Situs of Trademarks and Good Will*, 47 Va.L.Rev. 753 (1961). The court rejected, however, defendants' exhaustion argument that finding plaintiff had developed a substantive goodwill separate and distinct from the goodwill emanating from the branded products themselves.

> This local goodwill is the product of plaintiff's many U.S. activities (described above) promoting and standing behind the mark, including significantly warranty services, promotional rebates, educational activities and advertising. The Mamiya trademark in the U.S. represents a goodwill generated and importantly influenced by these activities. It is not the same trademark either in law or in fact as the Mamiya trademark at the place of

> manufacture, where it designates only the goodwill of the manufacturer.

After reviewing the pertinent customs statutes and regulations, Judge Leval concluded that plaintiff was entitled to preliminary relief under the customs statute and for trademark infringement as well. *Id.* at 1179.

Although it was not expressly mentioned, the exhaustion doctrine was applied to a grey market case in *Parfums Stern, Inc. v. United States Customs Service*, 575 F.Supp. 416 (S.D. Fla. 1983). In *Parfums*, plaintiff was the owner of the United States trademark for Oscar de la Renta fragrances. The court found that plaintiff was a cog in "what appear[ed] to be a single international enterprise operating through an amoeba-like structure" to distribute the product worldwide. Some of the enterprise's foreign distributors apparently sold products to other entities for import into the United States. Customs seized the products. Plaintiff then brought suit against the consignees of these shipments under both the trademark laws and the Tariff Act, 19 U.S.C. §1526.

The court found that plaintiff and its related companies had spent considerable sums advertising and promoting the product. "The plaintiff stands behind its product and has developed goodwill in conducting its business." *Id.* at 419. The court concluded, however, that plaintiff's rights in the Oscar de la Renta trademark had been exhausted once the product was placed into the international stream of commerce by its affiliates. The court found that plaintiff was seeking protection under the trademark laws for actions which plaintiff had set in motion through its own foreign manufacturing and distribution sources. Since "plaintiff's international enterprise" was

originally compensated for the goods when they were purchased on the parallel market, the court found that the Lanham Act did not protect plaintiff. The court recognized that *Katzel* was the law of the land, but distinguished that case on its facts. Similarly, the court found that *Bell & Howell* was an admirable statement of the law but noted that that case did not involve a "single, international enterprise." The court noted that in *Bell & Howell*, there was no evidence that the related companies exerted control over plaintiff's policies or operations while in *Parfums* the record was replete with evidence of the interrelation between plaintiff and the other entities comprising the international enterprise. The court therefore found that plaintiff had not established a likelihood of success on the merits and denied the motion for a preliminary injunction. (The court also found that plaintiff had failed to establish any of the other elements for a preliminary injunction).

Based upon my reading of these three cases, I conclude that the exhaustion doctrine applies when the United States markholder is related to the foreign markholder and/or manufacturer. However, I also conclude that the exhaustion doctrine does not apply when the United States markholder has developed a "separate, factually distinct goodwill" in its product. *Osawa, supra.* It is not anomalous that a mark on an identical product may represent a separate and independent goodwill in different countries. This does not mean the goodwill in one country is any better or worse than it is in the other, but rather that it is different. The difference in the goodwill is determined by ascertaining the person who stands behind the product and insures its quality in the United States. If it is the foreign manufacturer, then there is no distinct goodwill. If, however, it is the United States

markholder, then there is a distinct goodwill. Thus, for example, in *Osawa* the court found that the United States markholder had developed a distinct "local" goodwill in the mark notwithstanding the fact that the exclusive worldwide distributor owned 93% of plaintiff's stock and the foreign markholder 7%. "This local goodwill is the product of plaintiff's many activities . . . promoting and standing behind the mark, including significantly warranty service, rebates, educational activities and advertising." 589 F.Supp. at 1179. *See also Bell & Howell*, 548 F.Supp. at 1079 (where the court noted that foreign markholder only owned 7% of plaintiff's stock and that there was no evidence that it exerted any control over plaintiff's policies and operation. *Id. N.b.* The distributor which owned 93% of plaintiff's stock also owned 30% of the foreign markholder's stock and no other shareholder owned more than 6%. *Id.* at 1067). The *Parfums* case presents a situation where the goodwill in the United States mark was the same as that in other countries. Although the court did not expressly discuss the issue in terms of exhaustion (probably because the case was decided without the benefit of Judge Leval's thoughtful discussion of the issues in *Osawa*), the court obviously concluded that plaintiff's rights had been exhausted once the product was placed into the international stream of commerce by its affiliated companies. Although the court at one point stated that *plaintiff* stood behind the product and had developed its goodwill, *id.* at 419, the court obviously found no separate and independent goodwill in the United States since it repeatedly emphasized that plaintiff was merely a cog in a single international enterprise.

Therefore, I conclude that Weil must demonstrate a separate, factually distinct goodwill in order to

maintain an action for infringement against defendants. *Cf. Katzel, supra* (where district court emphasized development of distinct United States goodwill by United States markholder in granting preliminary injunction, 274 F. 856, 857 (S.D.N.Y. 1920), and where Supreme Court relied upon this fact in affirming. 260 U.S. at 692, 43 S.Ct. at 245). As noted above, defendants do no argue that the fact that Weil and Lladro S.A. share a common corporate parent will preclude Weil from ever establishing any separate and independent goodwill in the Lladro mark, and I am unable to find any good reason why it should. *Cf.* 15 U.S.C. §1127 defining "related company" as any person who controls or is controlled by the registrant "in respect to the nature and quality of the goods or services in connection with which the mark is used." I do not believe that the percentage of ownership should determine whether a separate goodwill has been developed. (To the extent that *Parfums* may be read to require such a simplistic analysis, I would disagree). The question is a factual one. Is the product's goodwill in the United States promoted and developed separately by the United States markholder or does the mark merely represent a foreign outpost of the goodwill associated with the original mark? *See Osawa*, 589 F.Supp. at 1174. The relationship of different markholders does not, in and of itself, preclude them from developing independent goodwills in the same mark. What must be determined is whether the United States markholder has developed the goodwill of the product in the United States or whether or it has merely relied upon the mark's international goodwill.

It is an elementary principle of trademark law (and a necessary corollary to the territoriality principle) that a mark in one country symbolizes the domestic goodwill

of the entity which stands behind the product in that country. *Osawa*, 589 F.Supp. at 1172; *Bell & Howell*, 548 F.Supp. at 1069. If the mark does not symbolize a separate and independent goodwill in the United States, there can be no confusion between the products imported by the United States markholder and those imported on the grey market. Their source is the same. Since there would be no confusion between the two, no action for infringement would lie. The foregoing explains, for the most part, the apparent conflicts in the cases which have discussed the issue. When the courts have held that genuine goods do not infringe, they implicitly have found no distinct United States goodwill and hence no confusion. *See e.g., Parfums*, 575 F.Supp. at 418-20 and *El Greco*, 599 F.Supp. at 1398. *See also Coalition to Preserve Integrity v. United States*, 598 F.Supp. 844 (D.D.C. 1984).

Notwithstanding its argument that no such showing is required, Weil asserts that it has established a separate and independent goodwill for the Lladro mark in the United States. According to the deposition testimony of Charles Morgan, the Executive Vice-President of Weil, Lladro porcelain was virtually unknown in the United States when Weil began importing it in 1963. Morgan Dep. at 105. According to Morgan, Weil's name and efforts in promoting Lladro in the United States were important factors in the development of a United States market. *Id.* (Weil was the owner of the United States trademark from 1967 until 1973 before it was assigned to Lladro S.A. after it had acquired 50% of Weil's stock).

Weil selects the retail stores which it concludes are appropriate to carry Lladro merchandise. *Id.* at 43-44. Weil employees visually inspect all limited edition

pieces and most of the larger pieces it receives. Morgan Dep. at 36-40. The remaining smaller pieces receive a shake test to determine breakage. *Id.* Weil also stands behind the porcelain which it sells by exchanging any piece having any imperfection. *Id.* at 49. See also Morgan Aff. at ¶13. Since Weil is a wholesale distributor, it rarely deals with consumers. If a consumer has a problem with merchandise, the product is normally returned to the retailer who sold the product. The defective piece is then shipped to Weil by the dealer, and Weil credits the dealer's account. Morgan Dep. at 51-52. In one instance, a consumer sent the piece directly to Weil after the dealer had replaced the defective piece. *Id.* at 52.

Weil devotes approximately 10% of its budget to advertising Lladro products. Morgan Aff. at ¶11. Weil's advertisements in national magazines always contain Weil's name. Morgan Dep. at 74. Furthermore, in one advertisement consumers were encouraged to write directly to Weil "exclusive importers" for Lladro, in order to obtain a flower brochure. *Id.* at 75; *see* Reply Brief at Exhibit 10. Weil maintains permanent showrooms for Lladro products, and also attends trade and gift shows to promote Lladro merchandise. Morgan Aff. at ¶14; *see also* Morgan Dep. at 53-54 and 70-73. Lladro catalogs, plaques, leaflets and posters are provided by Weil. *Id.* at 44. Additionally Weil imports another line of crystal from France which it sells under the United States trademark of Lladro. Morgan Dep. at 23-25. Weil has also established the Lladro Collectors Society which is designed to provide consumers with services and information about Lladro products. *Id.* at 13-18.

Finally, Weil selects the Lladro products which it sells in the United States. Morgan Aff. at ¶10. Lladro S.A. has designated four levels of quality for Lladro porcelain. The lowest quality is destroyed and not sold. The next level is designated "seconds" and sold only at factory outlets in Spain after the flower logo has been removed. The remaining grades are both considered first quality but are designated "A" or "B", with A being the highest quality. The A and B grading is highly confidential, and customers and purchasers throughout the world are not aware of this grading system. Both A and B first quality is sold to distributors throughout the world, but Weil imports only A quality porcelain to the United States. See Stip. at ¶12-6.

Defendant argues that notwithstanding Weil's evidence of a separate and independent goodwill Weil is not recognized by the consuming public as the exclusive distributor or "source" of the Lladro merchandise. Defendants argue that since Weil's only contact with the ultimate consumer occurs when it sells "seconds" during warehouse sales the ultimate purchaser would not be likely to look to Weil as the party responsible for the quality of merchandise manufactured by Lladro S.A. This facile argument is specious. "It is of little significance to the establishment of trademark rights whether the public can identify correctly by name the owner of the mark. . . . What is significant is whether the public misperceives the existence of single commercial entity as the sponsor of the mark, not whether the public can accurately name that entity." *Osawa*, 589 F.Supp. at 1174 citing *Coty, Inc. v. Le Blume Import Co., Inc.* 292 F. 264, 267 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923). The "source" of the goods in trademark law refers to the

person who insures the quality of the goods, and a trademark is only required to identify a single albeit anonymous source

> As Judge Jerome Frank succinctly states, "It matters not whether the customers know just who is the source". Thus, the "source identified by the trademark need not be known by name to the buyer. It may be anonymous in the sense that the buyer does not know, or care about, the name of the corporation that made the product or the name of the corporation which distributes it. But the buyer is entitled to assume that all products carrying the same trademark are somehow linked with or sponsored by that single, anonymous source. Once the courts recognized that a trademark need not denote a precise source of origin, but rather an "anonymous" source, they were recognizing that consumer differentiation by means of trademarks was not a precise process.

McCarthy, *Trademarks and Unfair Competitions*, §3.3(B) (2nd 1984).

Defendants also dispute Weil's separate and independent goodwill in the Lladro mark. Defendants note that 95% of the Lladro items are merely subjected to a shake test and only 4 to 5 percent are visually inspected. Morgan Dep. at 36-40. Weil's name only appears on the packaging of Lladro products which have been visually inspected. *Id.* at 39-42. Furthermore, no material is introduced into the Lladro boxes which bears Weil's name. *Id.* at 36. Defendants also note that Weil is never mentioned in any television or radio advertising conducted by retailers of Lladro

products. *Id.* at 79. Defendants also assert that Weil has not engaged in any promotional or educational activities associating Weil with Lladro products.

In order to prevail on a motion for summary judgment, the moving party must prove that "there is not genuine issue as to any material fact and that [the movant] is entitled to judgment as a matter of law." Fed. R. Civ. P. 56. A motion for summary judgment may only be granted if there are no remaining issues of material fact which, if believed by the trier of fact, would justify a finding for the party opposing that judgment. *Bryson v. Brand Insulation, Inc.*, 621 F.2d 556, 559 (3d Cir. 1980). All evidence submitted must be viewed in a light most favorable to the party opposing the motion. *Wahl v. Rexnord, 624 F.2d 1169, 1181 (3d Cir. 1980). However, the opposing party may not rest upon the mere allegations or denials of his pleadings, but his response must set forth specific facts showing a genuine issue for trial. DeLong Corp. v. Raymond International, Inc.*, 622 F.2d 1135, 1139 (3d Cir. 1980).

I conclude that defendants' evidence fails to establish a genuine issue of fact as to the existence of a separate and independent goodwill. The fact that Weil only performs a shake test on certain products is insignificant. It is undisputed that Weil insures the quality of the goods and replaces all defective pieces. Similarly, I do not believe that the fact that Weil's name rarely appears on the packages which consumers receive has any bearing in determining whether there is a separate and independent goodwill. The retailers with whom Weil deals directly are aware that Weil backs the goods. As noted above, consumers may assume that the trademarked goods are sponsored by a source even if that source is anonymous. Furthermore, Weil places

advertisements in national magazines which do disclose that Weil is the exclusive importer of Lladro products. Since what they are selling is the product, and they do not deal directly with consumers, there is no need for Weil to display its name prominently in these advertisements. Thus, the fact that Weil is not mentioned in advertising by retailers is also of no moment. Finally, defendants' assertions that Weil does not engage in any promotional or educational activities are contradicted by the record. Weil has established the Lladro Collectors Society which provides service and information to consumers. It maintains permanent showrooms and also participates in trade shows. (Although Weil held major promotions for Lladro products in 1982, see Morgan Dep. at 71-73, I will not consider this fact in considering the existence of a separate and independent goodwill since Weil did not own the United States trademark for Lladro porcelain at that time). Therefore, I conclude that there is no genuine issue of material fact that Weil has established a separate and independent goodwill in the United States for the Lladro mark.

3. Likelihood of Confusion

To prevail on its trademark infringement claim, Weil must also show that there is no genuine issue of material fact that there is a likelihood of confusion. Of course, likelihood of confusion is normally a question of fact. In the present case, however, it has been stipulated that the goods which defendants import are genuine or identical. As I noted above, there is not genuine dispute that the goodwill representing Weil's mark is distinct from any other Lladro mark in international commerce. Therefore, there can be no

dispute that defendants' identical product cause confusion as to the entity which stands behind the product. *Cf. Model Rectifier Corp. v. Takachiho International Inc.*, 709 F.2d 1517, 221 USPQ 502, 503 (9th Cir. 1983). Consumers in the United States have the right to believe that Weil, and only Weil, is the person who insures the quality of Lladro porcelain. When defendants sell Lladro porcelain, however, Weil does not guarantee the quality of those goods. In fact, it has been stipulated that Lladro S.A. produces two levels of first quality porcelain for sale throughout the world. Weil only imports the highest quality porcelain for sale to United States consumers. Defendants, on the other hand, who purchase Lladro porcelain on the grey market, have stipulated that they have been importing both levels of porcelain into the United States.[2] Stip. at ¶7. Thus, defendants' porcelain is likely to cause confusion as to the quality of the products as well.

Defendants argue that Weil's warranty to replace defective pieces is similar to defendants' obligations under the Uniform Commercial Code, N.J.S.A. 12A:1-101 *et seq.* This does not, however, alleviate the likelihood of confusion. In fact, it compounds it. "For the warranty is of value to the goodwill of the mark

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[2] Defendants correctly point out that their stipulation is not a general admission, but rather was entered only for purposes of this motion. Defendants now argue that should the stipulated facts be relied upon by the Court in deciding this motion, they should be considered as genuine issues of material fact which preclude the entry of summary judgment. This is absolutely preposterous. Defendants have stipulated to these facts and they will be bound by this stipulation in deciding this motion. There is no evidence that the stipulation was procured by fraud or duress. In fact, I have every reason to belief that the stipulated facts accurately reflect the true facts.

only if offered by one who has the incentive to uphold the reputation of the mark." *Osawa*, 589 F.Supp. at 1169. Defendants do not have the same incentive to uphold the reputation of Lladro porcelain as does Weil. Weil would constantly be subject to the risk that defendants would disavow their obligation or perform inadequate repairs. The disparity between warranty service would cause further confusion to consumers who look to Weil as the entity which insures the quality of Lladro porcelain. *Id.*

Thus, I conclude that there is no genuine issue of fact that Weil owns the United States trademark for Lladro porcelain, that defendants have used the mark in commerce without Weil's consent and that such use is likely to cause confusion. Therefore, I will grant summary judgment in favor of Weil on the second count of its complaint.

C. Unauthorized Importation

The third count of Weil's complaint asserts a cause of action under §42 of the Lanham Act, 15 U.S.C. §1124, and §526 of the Tariff Act of 1930, 19 U.S.C. §1526. Section 42 provides in pertinent part:

> Except as provided in subsection (d) of section 526 of the Tariff Act of 1930, no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any customhouse in the United States.

Similarly, §526(a) of the Tariff Act makes importation of such goods without the owner's consent unlawful:

> (a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United State, under the provisions of section 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Section 526 (d) provides an exception when the articles are for personal use of certain merchandise as long as the merchandise is of the type and quantity specified by the Secretary and is not intended for resale. It is undisputed that this section does not apply in the instant case.

The question in the present case is whether the third count requires a different analysis from that of the second count, specifically as to whether genuine goods may cause confusion which would require exclusion of the goods. The parties have apparently assumed that the same analysis is warranted for each count since they have, for the most part, discussed the issues without differentiating between each cause of action. (For purposes of clarity, I have discussed the issues separately). Logic would seem to indicate that if the use of products bearing the Lladro mark is prohibited,

then importation of such goods should also be prohibited. A brief review of the history and purpose of the import statutes establishes that this is true.

A number of courts have exhaustively analyzed the unique history of §526. *See Vivitar Corp. v. United States*, 761 F.2d 1552, 225 U.S.P.Q. 990, 996-1000 (Fed. Cir. 1985); *Osawa*, 589 F.Supp. at 1175-78; *Coalition to Preserve Integrity v. United States*, 598 F.Supp. 844, 849-50 (D.D.C. 1984) ("COPIAT"); *Bell & Howell*, 548 F.Supp. at 1072-78. Therefore, I will offer only a brief summary of that issue so as to explain the basis for my conclusion that genuine goods may cause confusion under §526.

Section 526 was enacted shortly after the Second Circuit held in *Katzel* that genuine goods could not cause confusion under the trademark laws. That holding basically reaffirmed the principle which had first been established by the Second Circuit in *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916). In *Gretsch*, the Second Circuit held that §27 of the Trademark Act of 1905 (the predecessor to §42 of the Lanham Act) which prohibited the importation of goods which copied or simulated a registered mark did not bar the importation of genuine goods. Mainly in response to the Second Circuit's holding in *Katzel*, Congress enacted §526. As the court explained in *Vivitar*, §526 did not effect a change in the trademark laws but rather in the customs laws. 761 F.2d at 1561, 225 U.S.P.Q. at 998. Thus, §526 was intended to supply the supposed "casus omissus" of §27 of the Trademark Act of 1905. *Coty, Inc. v. LeBlume Import Co., Inc., 292 F. 264, 268-69 (S.D.N.Y.), aff'd*, 293 F. 344 (2d Cir. 1923).

Shortly after the enactment of §526, the Supreme Court reversed the Second Circuit's decision in *Katzel* held that genuine goods could cause infringement. Later that term, the Supreme Court held that genuine goods were excludable under §27 in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675, 44 S.Ct. 4, 68 L.Ed. 501 (1923). Relying upon *Katzel*, the Court in a memorandum opinion held that the sale of genuine goods constituted trademark infringement and that §27 required exclusion of such goods from entry into the United States. The Court did not refer to the recently enacted §526. *See also Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931) (holding that importation of genuine merchandise for personal use was excludable under the statute. N.b. According to current regulations under §526(d) certain merchandise for personal use may be permitted. *See supra* at 33).

The decision of the Supreme Court in *Aldridge* made it clear that genuine goods may infringe under the trademark laws and further that such infringing goods would be excludable under both the trademark and customs laws. The enactment of §526 merely reinforced that conclusion. Therefore, I find that genuine goods may cause confusion under both §526 and §42. *Cf.* 48 U.S.C. §1643 which provides that §42 and §526 are not applicable to importations into the Virgin Islands of "genuine foreign merchandise bearing a genuine foreign trademark" but are applicable to imports from the Virgin Islands to the United States. If Congress did not believe that genuine goods were excludable under §42 and §526, then it would not have had to create a special exception for imports into the Virgin Islands.

Defendants have moved to dismiss the third count of Weil's complaint, or in the alternative, for summary judgment. Defendants rely primarily on *Parfums Stern* and *COPIAT in support of their argument. As noted previously, Parfums Stern* involved a single international enterprise. In the present case, I have already concluded that Weil has established a separate and independent goodwill for the Lladro mark. Therefore, *Parfums Stern* is inapposite.

COPIAT is similar to *Parfums Stern.* It involved a group of trademark owners who had licensed their foreign subsidiaries to manufacture goods bearing their trademarks. Plaintiffs brought suit to prevent importation of grey market goods under §42 of the Lanham Act and §526 of the Tariff Act. Defendants moved to dismiss the infringement claim arguing that §42 did not prevent importation of genuine goods. The court noted that the case was distinguishable from *Katzel* and *Aldridge* because in those cases the United States markholder was truly independent of the entity applying the mark abroad, and had developed "its own goodwill in the American marketplace." *Id.* at 848. The court found in the case before it that the United States markholders did not come within *Katzel* and *Aldridge* and dismissed the action under §42. *Id.* To the extent that *COPIAT* infers that a truly independent United States markholder may maintain an action for infringement under §42 to prevent importation of genuine goods, I am in total agreement. However, if by "independent" the court simply meant unrelated, I disagree. As I have already noted, whether the domestic markholder is independent does not depend on its relation to a foreign entity, but rather upon whether there is a distinct goodwill for the product in the United States. That is precisely what the *COPIAT*

court concluded. Thus, I find nothing in *COPIAT* which convinces me that Weil's third count must be dismissed.

I note that Weil has not moved for summary judgment on the third count. However, on defendants' motion I am already engaged in the process of determining whether there is a genuine issue of material fact, and the parties have had the opportunity to present evidence on the issues. The weight of authority establishes that summary judgment may be rendered in favor of the opposing party even though no formal application has been made. 10A C. Wright, A. Miller & M. Kane, *Federal Practice & Procedure* §2720 pp. 29-30 & n. 20 (1983); *see, e.g., People's Trust Co. of Bergen County v. United States,* 311 F.Supp. 1197 (D.N.J. 1970), *aff'd,* 444 F.2d 193 (3d Cir. 1971).

I have already concluded that the exhaustion doctrine of trademark law applies to grey market cases and that a separate and independent goodwill must be shown by the domestic markholder. *See supra* at 22-25. Of course, I have already found that Weil has established a separate and independent goodwill for the Lladro mark and that defendants have failed to show any genuine issue of material fact. However, since Customs has adopted regulations which specifically deal with ownership and control of related companies, it is arguable that my finding of separate and independent goodwill has no bearing on the issues presented under §526.

Pursuant to statute, United States Customs has enacted regulations dealing with the import restrictions imposed by §42 of the Lanham Act and §526 of the Tariff Act. *See* 19 C.F.R. §133.0 *et seq.* Under the current regulations, trademarks may be recorded by

filing an application with Customs. *Id.* at §133.2. Merchandise copying or simulating a recorded trademark will be denied entry and is subject to forfeiture. *Id.* at §133.21(a). A "copying or simulating" mark is defined as an actual counterfeit of the recorded mark or one which so closely resembles it as to be likely to cause the public to associate the copying mark with the recorded mark. *Id.* Under subsection (b), foreign articles bearing a mark identical to a recorded mark are also prohibited.

Section 133.21(c)(2) provides that the restrictions set forth in paragraph (a) and (b) do not apply if:

> (2) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §133.2(d) and 133.12(d))

Sections 133.2(d) and 133.12(d) provide that "common ownership" means individual or aggregate ownership of more than 50 percent of the business and that "common control" means effective control in policy or operations and is not necessarily synonymous with common ownership. *Id.* at §133.2(d)(1) and (2).

The genesis of the current regulations may be traced back to *United States v. Guerlain*, 155 F.Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915, 79 S.Ct. 285, 3 L.Ed.2d 236 (1958), *action dismissed*, 172 F.Supp. 107 (S.D.N.Y. 1959). In *Guerlain*, the Justice Department instituted an antitrust action against the United States distributors of French perfumes who had obtained exclusion of genuine goods under §526. The district court found that the distributors were part of a single international enterprise and that the exclusion order violated §2 of

the Sherman Act. On appeal to the Supreme Court, the Justice Department reversed its position, apparently believing that such a change in the law should come from legislation rather than adjudication. The Supreme Court vacated the district court order and the case was subsequently dismissed with prejudice. Legislation was prepared but never enacted. *See Osawa*, 589 F.Supp. at 1176.

In response to the position taken by the Justice Department in *Guerlain*, Customs adopted regulations which substantially narrowed the rights conferred upon a registrant under §526. These regulations denied exclusion if the foreign and United States trademarks were owned by related companies. 19 C.F.R. §11.14(b) (1954). Customs later dropped this limitation after *Guerlain* was dismissed, but in 1973 promulgated similar regulations which are now codified as the current regulations, 19 C.F.R. §133.0 *et seq.*

Although Weil and Lladro S.A. are not in a parent-subsidiary relationship, they are admittedly subject to common ownership. Thus, genuine Lladro goods would not be subject to exclusion under the current regulations, regardless of whether Weil had developed a separate and independent goodwill. The question thus becomes whether the Customs regulations preclude Weil from obtaining relief under §42 of the Lanham Act and §526 of the Tariff Act. I conclude that they do not.

The customs regulations do not define the statutory *limits* of §526 or of §42. *See Vivitar Corp. v. U.S.*, *supra*. In *Vivitar*, plaintiff brought suit to invalidate these regulations on the ground that they improperly allowed importation of grey market goods contrary to the express provisions of §526 of the Tariff Act. The court

exhaustively reviewed the legislative history of §526 and recounted the various interpretations which Customs had given to it over the years. The court held that the regulations "do no more than define Customs' role in initiating administrative enforcement of the statute." *Id.* 761 F.2d at 1569, 225 U.S.P.Q. at 1003. The court of appeals concluded that it was for the courts to independently determine in a private suit under §526 whether importation of particular grey market goods should be prohibited. Thus, Customs' determinations had no effect whatsoever on a trademark owner's right to seek a judicial determination of infringement under §42 of the Act and to have the goods excluded under §526.

> In connection with the exclusion under the trademark statute (15 U.S.C. §1124), Customs' administrative determination that importation bear a mark that is not likely to cause confusion with a recorded mark has no effect on a trademark owner's right to obtain a judicial determination of infringement and thereafter to have such goods excluded (or vice versa). Similarly, Customs' decision, as expressed in the subject regulations, not to exclude grey market goods does not control on the question of whether particular goods should or should not be excluded. A trademark owner is entitled as in the "confusingly similar" mark case, to pursue private remedies against the importer and, if successful, to have such grey market goods excluded.

Id. (citations omitted).

The fact that the regulations did not go as far as they might have in automatically excluding grey market

goods, did not mean that they were contrary to the statute or invalid.

> That Customs regulations do not provide for exclusion initially in a case where the trademark owner ultimately prevails in federal district court does not mean that regulations must be declared invalid. Where protection under the statute is unclear or depends upon resolution of complex factual situations, Customs may decline to impose sua sponte the extreme sanction of exclusion and leave such cases for initial determination by the district courts under the private remedies provided to the trademark owner in §1526(c). Indeed, the fact that the trademark owner is provided with the remedies of injunction and damages against private parties who have improperly dealt in the goods in the United States negates the idea that agency-initiated action in all cases is expected.

Id. at 1570, 225 U.S.P.Q. at 1003-04 (footnote omitted). Therefore, the court held that the regulations were valid but not controlling with respect to the protection of §526.

Thus, although the goods imported by defendants are not subject to *automatic exclusion* by Customs under the regulations, I conclude that they do cause confusion under §42 and may be excluded under §526. As the court noted in *Vivitar*, the *regulations* do not determine the scope of the statute. Although Customs would not initially exclude Lladro porcelain because of Weil's relationship to Lladro S.A. and Sodigei S.A., that does not mean that this court may not order such exclusion

when there has been trademark infringement. In the present case, I have already concluded that there is no genuine issue of material fact that Weil has developed an independent goodwill. Weil acts as more than the importer of the trademarked goods. It is the entity which insures their quality, and defendants have failed to produce any evidence to contradict Weil's proof of a distinct goodwill. Similarly, there is no genuine dispute that defendants' *use* of genuine goods is likely to cause confusion. I now conclude for the same reason that defendants' *importation* of genuine goods will also cause confusion.

The only remaining issue of fact which I can perceive that might preclude entry of summary judgment in favor of Weil on the third count concerns Weil's registration of its mark. Under both §42 and §526, Weil's mark is to be registered with the Department of Treasury. In order to have the goods excluded, therefore, Weil's mark should be recorded with Customs as provided in 19 C.F.R. §133.0 *et seq.* Weil asserts in its complaint that it has "compiled with the filing requirements of 19 U.S.C. §1526(a)." ¶49. Defendants assert in their answer, however, that they are without knowledge of Weil's compliance. Since Weil has not formally moved for summary judgment, I will give the parties the opportunity to complete the record in this regard and with respect to any other factual issues relating to the third count. Because of this limited gap in the record, I will not at this time award summary judgment in favor of Weil on the third count of its complaint.

IV. CONCLUSION

Defendant's motion for summary judgment will be granted on the First Count and denied on the Second and Third Counts.

Weil's motion for summary judgment will be denied on the First Count and granted as to liability on the Second Count.

Summary judgment on the Third Count as to liability will be granted in favor of Weil if Weil can demonstrate that there is no issue of material fact on the questions noted above.

Weil's complaint seeks a full range of relief under the Lanham Act and the customs laws. A determination of the appropriate relief to be granted will await further proceedings.

Weil's attorneys are requested to submit an appropriate order.

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 86-5187 & 86-5207

WEIL CERAMICS AND GLASS, INC.,
a New York Corporation,

v.

BERNARD DASH, an individual and
JALYN CORP., a Corporation.

WEIL CERAMICS & GLASS, INC.,

Appellant in 86-5187

BERNARD DASH and JALYN CORP.,

Appellants in 86-5207

On Appeal from the United States District Court
for the District of New Jersey - Newark
(D.C. Civil Action No. 84-2157)

Reargued November 14, 1988

Before: HIGGINBOTHAM and BECKER, *Circuit Judges*, and DUMBAULD, *District Judge*.*

(Filed MAY 25, 1989)

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* Honorable Edward Dumbauld, Senior United States District Judge for the District of Western Pennsylvania, sitting by designation.

OPINION OF THE COURT

A. LEON HIGGINBOTHAM, JR., *Circuit Judge.*

On this appeal we are asked to determine the availability of trademark and tariff act protections to an American company — which is owned by the same entity that owns the foreign manufacturer of a good, but which holds a valid American trademark for the foreign manufactured good — against parallel imports or so-called "gray-market" goods. Specifically, we are asked to determine whether §32 of the Lanham Act, 15 U.S.C. §1114 (1982), makes damages available to the American trademark holder for trademark infringement and if §42 of that act, 15 U.S.C. §1124 (1982), may be employed on behalf of the American company to prohibit the importation of gray-market goods.

This appeal also raised the question of whether §526 of the Tariff Act, 19 U.S.C. §1526 (1982), could be employed to preclude the importation of gray-market goods. That section has been construed by the Customs agency in its regulations as allowing the importation of gray-market goods in those cases where the American trademark holder is owned by, or owns, the foreign manufacturer of the good. *See* 19 C.F.R. §133.21 (1987). Appellee/Cross-Appellant contended, and the district court found, that the Custom's agency's regulation was inapplicable. Since the filing of this appeal, however, the agency's regulation was construed in a decision of the Supreme Court — unrelated to the present appeal — which raised the same issue. *See K*

Mart Corp. v. Cartier, Inc., ___ U.S. ___, 108 S.Ct. 1811 (1988). That decision controls the claim raised by the Appellee/Cross-Appellant regarding §526 in this case, and directs that the decision entered by the district court on its behalf be reversed. *K Mart* is also instructive to the disposition of the Appellee/Cross-Appellant's contentions regarding §§42 and 32. We conclude that neither of these sections provides the relief sought and, accordingly, we will reverse the decision of the district court.

Finally, we conclude that the district court erred by dismissing the contention raised by Appellee/Cross-Appellant under §33(b) of Lanham Act, 15 U.S.C. §1115(b) (1982), on the grounds that that section does not expressly or implicitly provide a right for private action. We conclude that §33(b) may be used by a private litigant in an infringement action and, therefore, we will reverse the judgement of the district court. Notwithstanding that conclusion, however, we will remand with instructions that judgement be entered in favor of the Appellant/Cross-Appellee. We review, *de novo*, the appropriate scope of the statute and conclude that §33(b) does not provide the remedy sought by the Appellee/Cross-Appellant in this case.

I. *Background*

This is an appeal about gray-market goods.[1]

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[1] The term "gray-market goods" refers to foreign manufactured goods, for which a valid United States trademark has been registered, that are legally purchased abroad and imported into the United States without the consent of the American trademark holder.

Appellants in the present case note that the term "gray-market"

Appellee/Cross-Appellant, Weil Ceramics & Glass, Inc., ("Weil"), is the wholly owned subsidiary of Lladro Exportadora, S.A., a Spanish corporation that is a sister corporation to Lladro, S.A., which manufactures fine porcelain in Spain.[2] The porcelain is handmade and each piece bears the trademark "LLADRO," accompanied by a flower logo.

In February 1966, Weil, a New York corporation in the business of importing and selling fine porcelain and glassware, became the exclusive distributor in the United States of Lladro porcelain. The following year Weil obtained a valid United States registration for the LLADRO trademark and continued as the exclusive distributor of the porcelain.

In 1973, Lladro, S.A. acquired 50% of Weil's stock. At that time, Weil assigned all of its rights in its United States LLADRO trademark to Lladro, S.A. In 1977, Lladro Exportadora obtained Lladro, S.A.'s shares of Weil stock, as well as the remaining 50% of Weil stock, and became the sole owner of Weil. In 1983, Lladro

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unfairly implies a nefarious undertaking by the importer, and that the more accurate term for the goods at issue is "parallel import." We agree that the term parallel import accurately describes the goods and is, perhaps, a better term because it is devoid of prejudicial suggestion. For that reason, we use that term in this discussion. However, we also employ the term "gray-market" good because, for better or worse, it has become the commonly accepted and employed reference to the goods at issue. *See K Mart*, 108 S.Ct. at 1814.

[2] The specific character of the relationship between Lladro, S.A. and Weil is that they share a common parent corporation, Sodigei, S.A. Sodigei is a Spanish corporation that is wholly owned by the Lladro family. It owns Lladro, S.A. as well as three other Spanish corporations which together own 100% of the stock of Lladro Exportadora, S.A. Lladro Exportadora owns 100% of Weil.

Exportadora assigned the United States LLADRO trademark back to Weil.

In 1982, Appellants/Cross-Appellees Jalyn Corporation and its president, Bernard Dash, (together "Jalyn"), began importing LLADRO porcelain. Jalyn legally obtained the porcelain in Spain from distributors of Lladro, S.A. and sold it in the United States without the consent of Weil. In 1984, Weil filed a complaint in the federal district court for the district of New Jersey seeking declaratory and injunctive relief against Jalyn's continued import of Lladro porcelain and money damages for trademark infringement.

The District Court's Decision

In its complaint, Weil contended that Jalyn's import and sale of Lladro porcelain violated Weil's exclusive right to use the trademark pursuant to §33(b) of the Lanham Act. 15 U.S.C. §1115(b) (1982). Weil further contended that Jalyn's actions constituted an infringement on its trademark in violation of §§32(1)(a) and 42 of the Lanham Act, and a violation of §526 of the Tariff Act. 19 U.S.C. §1526 (1982). After the completion of discovery, Weil and Jalyn filed cross motions for summary judgment.

The district court dismissed Weil's contention under §33(b) because it concluded that the section does not provide for private enforcement. It held that the language of §33(b) "does not establish any intent by Congress to create a cause of action." *Weil Ceramics & Glass, Inc. v. Dash*, 618 F.Supp. 700, 703 (D.N.J. 1985). The district court determined that §33(b) "merely states the evidentiary status of an incontestable mark," *id.*, and noted that "§32 [of the Lanham Act] provides

an effective remedy for the owner of a mark which has been improperly used by another . . . . [and] since §32 expressly provides a remedy, the statutory scheme effectively negates any congressional intent to create a cause of action under §33(b)." *Id.* at 704.

In light of its conclusion regarding §33(b), the district court stated its view that Weil's infringement action turned upon §32. On the claim based on that section, however, the district court granted Weil's motion for summary judgment. It held, in pertinent part, that "[i]n order to prevail on its claim under §32(1)(a), Weil must show that . . . [Jalyn's] use [of the LLADRO trademark] is likely to cause 'confusion.' " *Weil Ceramics*, 618 F.Supp. at 704. Jalyn had argued, as it does on this appeal, that because the porcelain that it sold was genuine — i.e., the trademark was affixed by the manufacturer and was no different in character from the porcelain sold by Weil — the goods did not cause the "confusion" to which §32(1)(a) refers. The district court rejected that argument. It found that the porcelain goods imported by Jalyn "are not a copy or imitation," *Id.* at 703, but nonetheless concluded that the trademark act proscriptions applied. Noting that "relatively few cases have confronted this issue and the court have split, . . . [the district court] conclude[d] . . . that genuine goods may cause confusion." *Id.* at 706.

As support for its holding, the district court relied principally upon the Supreme Court's decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923). The district court read that decision as having established the "territoriality principle" of trademark law which views trademarks as having separate legal existences in each country in which they are registered, and as symbolic of "the goodwill of the domestic markholder

whose reputation backs the particular product in that territory." *Weil Ceramics*, 618 F.Supp. at 705. In that light, the district court concluded that "even if a trademark correctly identified the manufacturer of the goods, it would still be an infringing product if it deceived the public into believing that the domestic markholder's goodwill stood behind the product." *Id.* The district court then analyzed the factual evidence of Weil's independent goodwill in the LLADRO trademarked porcelain, and concluded that Weil had demonstrated that no issue of material fact existed concerning Weil's claim that Jalyn's distribution of the porcelain in the United States had infringed Weil's trademark. *See id.* at 706-14.

Finally, the district court reviewed Weil's contention that §42 of the Lanham Act and §526 of the Tariff Act precluded Jalyn's continued importation of the LLADRO porcelain. Jalyn sought summary judgment on this contention on two bases: first, Jalyn contended that §42, like §32 does not provide that genuine goods are subject to claims raised under the trademark act. The district court rejected that argument and cited the Supreme Court's decision in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) for the proposition that "genuine goods may infringe under the trademark laws and further that such infringing goods would be excludable under both the trademark and customs laws." *Weil Ceramics*, 618 F.Supp. at 715. It noted that a separate federal statute provides that §42 and §526 are not applicable to importations into the Virgin Islands of "genuine foreign merchandise bearing a genuine foreign trademark." *Id.* at 715 (citing 48 U.S.C. §1643 (1982)). In light of that specific preclusion, the district court concluded that "[i]f Congress did not believe that genuine goods were

excludable under §42 and §526, then it would not have had to create a special exception for imports into the Virgin Islands." *Id.* It held, therefore, that Jalyn's importation of the LLADRO porcelain infringed Weil's trademark pursuant to §42 and was excludable under §526.

Alternatively, Jalyn argued that neither §526 nor §42 could be employed to bar importation of the porcelain because of the federal regulation that explicitly excludes from §526's prohibition against parallel imports those goods that are distributed by a United States trademarkholder that has a corporate relationship with the foreign manufacturer. *See* 19 C.F.R. §133.21(c)(2) (1987). The district court also rejected that argument. It concluded that "Weil has established a separate and independent goodwill for the Lladro mark," *Weil Ceramics*, 618 F.Supp. at 715, and therefore had demonstrated that it was the "owner" of the trademark. In the district court's view, "whether the domestic markholder is independent does not depend on its relation to a foreign entity, but rather upon whether there is a distinct goodwill for the product in the United States." *Id.* at 716. The district court held that the "common control" exclusion from the prohibition of parallel imports was inapplicable because the exclusion did not define or limit the scope of §526 or §42, but rather only defined the Customs agency's role administering the statute. *Id.* at 717. It held that the exclusions in §§133.21(c)(1) and (2) provided only that the goods imported by Jalyn were not subject to "*automatic exclusion* by Customs under the regulations." *Id.* at 718. (emphasis in original). Accordingly, the district court held that the regulation did not proscribe a judicial determination that the goods "cause[d] confusion under §42 and may be

excluded under §526." *Id.* It found that such confusion existed and, therefore, that both §42 and §526 were available to preclude Jalyn's continued import of the porcelain.

Jalyn filed this appeal from the decision of the district court granting summary judgment to Weil on its claims regarding §§32 and 42 of the Lanham Act and §526 of the Tariff Act. Weil cross-appealed the dismissal of its claim based upon §33(b) of the Lanham Act. Subsequent to the filing of appeals in this case, the Supreme Court granted certiorari review of a consolidation of cases, decided by the Court of Appeals for the District of Columbia, in which that Court of Appeals had determined that the Customs Agency's promulgation of §133.21 was inconsistent with §526. We held disposition of this appeal in abeyance *curia advisari vult*, pending the decision of the Supreme Court. In *K Mart*, the Supreme Court resolved explicitly one of the principal issues raised in the present appeal, and gave important guidance for the resolution of the remaining issues.

II. *K Mart v. Cartier, Inc.*

K Mart, similar to the present case, concerned the import of parallel goods without the consent of the American trademark holder. The focus of the Court's opinion was the Customs Agency's construction of §526 of the Tariff Act as reflected by its promulgation of §133.21. Section 526 prohibits the importation

> into the United States [of] any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or

> organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. §1526(a) (1982).[3] By its promulgation of §133.21, however, the Customs Agency construed §526 to except goods for which the United States trademark is not solely "owned by" a domestic entity. Accordingly, that regulation permits the entry of goods manufactured abroad by the "same person" who holds the United States trademark or by a person who is "subject to common control" with the United States trademark holder. 19 C.F.R. §§133.21(c)(1), (2) (1987).[4]

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[3] The section is commonly referred to as S526, notwithstanding its enumeration as S1526 in its present statutory codification. The statute was originally enacted as S526 of the Tariff Act of 1922, 42 Stat. 975. It was subsequently reenacted in identical form as S526 of the 1930 Tariff Act, 19 U.S.C. S1526, hence its present statutory designation.

[4] Section 133.21 implements the "[r]estrictions on importations of articles bearing recorded trademarks and tradenames." 19 C.F.R. S133.21 (1987). Significantly, however, the section delineates specific circumstances in which the restrictions do not apply. In pertinent part, the regulation provides that

> [t]he restrictions set forth in [this section] do not apply to imported articles when:
>
> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity; [or]
>
> (2) *The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control*

19 C.F.R. SS133.21(c)(1), (2) (1987) (emphasis added).

In *K Mart*, the Court addressed claims that the two exceptions for "common control" and "authorized use" to §526's prohibition against parallel imports are inconsistent with §526. 108 S.Ct. at 1816-17. The regulation did not exclude all such goods, or if it did, that it was an impermissible construction of the statute. The Court determined that §§133.21(c)(1) & (2) were reasonable constructions of ambiguity in the language of §526 and concluded that those sections were consistent with the intent of §526. 108 S.Ct. at 1814.

In its analysis, the Court identified three general case scenarios in which the gray-market goods issue is presented, and evaluated the reasonableness of the application of §133.21 to each of those scenarios. The case 1 scenario, which the Court described as prototypical, involves a domestic company — that is independent of the foreign manufacturer — which purchases the right from the foreign company to register and use that company's trademark in the United States. The case 2 scenario involves a domestic company that registers a trademark for a good produced by a foreign manufacturer with which the domestic company shares a corporate affiliation. This scenario has three variations: a foreign company that has an incorporated subsidiary in the United States which distributes its product domestically (case 2a); a domestic company that incorporates a subsidiary manufacturing company abroad and then imports its goods (case 2b); or a domestic company that establishes an unincorporated manufacturing division abroad and then imports the foreign manufactured product into the United States (case 2c). The case 3 scenario involves a domestic trademark holder that authorizes an independent foreign manufacturer to use its trademark. *See id.* at 1814-15.

The opinion of the Court, written by Justice Kennedy, was founded upon different majorities for each of the holdings announced in its separate parts.[5] Significantly, however, that opinion stated the unanimous judgment of the Court regarding application of §133.21 to the scenario in which a domestic subsidiary is the trademark holder for foreign manufactured goods that are produced by its foreign parent. *See K Mart*, 108 S.Ct. at 1818. ("All Members of the Court are in agreement that the agency may interpret the statute to bar importation of gray-market goods in what we have denoted case 1 and to *permit the imports under case 2(a).*") (emphasis added). The Court concluded that the term "owned by," as it appears in

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[5] In part I of Justice Kennedy's opinion, in which Chief Justice Rehnquist and Justices White, Blackmun, O'Connor and Scalia joined, the Court held that "the common-control exception of the Customs Service Regulation, 19 C.F.R. §133.21(c)(1)-(2) (1987), is consistent with §526." *K Mart*, 108 S.Ct. at 1817. That holding was concurred with in an opinion by Justice Brennan in which Justices Marshall and Stevens joined. *See id.* at 1819-22.

Significantly, a separate majority of the Court concluded that subsection (c)(3) of the regulations, which precluded the domestic trademark holder from prohibiting the importation of goods made by an *independent* foreign manufacturer whom the domestic markholder has authorized to use the trademark, could not stand. As to that scenario (case 3), the Court concluded that

> [u]nder no reasonable construction of the statutory language can goods made in a foreign country by an *independent* foreign manufacturer be removed from the purview of the statute.

K Mart, 108 S.Ct. at 1818-19 (emphasis added). In this holding, as in the Court's holding as to the case 1 and case 2 scenarios (and, in our view, *Katzel*) the court relied upon the corporate relationship between the domestic markholder and the foreign manufacturer in the determination of the appropriate trademark protection.

§526, "is sufficiently ambiguous, in the context of the statute, that it applies to situations involving a foreign parent, which is case 2a." *Id.* The Court noted further that "[t]his ambiguity arises from the inability to discern, from the statutory language, which of the two entities involved in case 2a can be said to 'own' the U.S. trademark if, as in some instances, the domestic subsidiary is wholly owned by its foreign parent." *Id.*[6]

The case before us most closely resembles the case 2(a) scenario. Weil is the wholly owned subsidiary of the foreign manufacturer and, consistent with the Supreme Court's decision regarding that scenario, we are persuaded that §133.21 excludes the goods imported by Jalyn from §526's prohibition of parallel imports.

Weil argues that *K Mart* does not preclude it from protection against parallel importation by §526 because Weil has demonstrated factually that it is the *independent* owner of the United States LLADRO trademark even though Weil is not independent of the

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[6] The concurring opinion of Justice Brennan went further than the majority's view that S133.21 was valid because it was a reasonable construction of ambiguous language in S526. Justice Brennan stated explicitly that "Congress did not intend to extend S526's protection to affiliates of foreign manufacturers (case 2)". 108 S.Ct. at 1820 (Brennan, J., concurring). He concluded that

> the legislative history and purpose of S526 confirm . . . that if Congress had any particular intent with respect to the application of S526 to trademark owners affiliated with foreign manufacturers, it was to exclude them from its shield.

Id. at 1826. It appears, therefore, that at least three of the Justices are of the explicit view that S133.21 is not only a *reasonable* construction of S526 in the case 2a scenario, but that it is the *correct* interpretation of the legislative intent of that statute.

foreign manufacturer, Lladro, S.A. It reads *K Mart* as affirming only the application of §133.21 to instances of sham incorporation, in which a foreign manufacturer incorporates a shell domestic corporation so that it can control the distribution of its product in the United States without competition. Weil contends, essentially, that §133.21 is properly viewed as a presumption against the extension of §526 to goods imported in the 2(a) circumstance but that that presumption should not be irrebuttable. Accordingly, it asserts that since it can demonstrate factually that it was not a sham incorporation by Lladro, S.A., and that it independently owns the LLADRO trademark, §133.21 should not operate to preclude the application of §526.

Although Weil is not a subsidiary that was incorporated by its parent, its affiliation with Lladro, S.A. enables it nonetheless to enjoy every benefit that inheres in the corporate relationship that the Supreme Court described in the case 2(a) scenario. More significantly, that relationship also provides the opportunity for the foreign manufacturer's control of the United States market — under the auspices of the trademark act — that §133.21 intended to preclude. Thus, although Weil was not a "sham" incorporated by Lladro with the specific intent to benefit from the protection of the trademark act, its present relationship with Lladro nonetheless presents the potential for undesired monopoly of the domestic market and warrants application of §133.21. Moreover, we note that the Court did not limit its holding in *K Mart* to the decision that §133.21 is a reasonable construction of §526 only so far as that regulation provides a "presumption" of ownership in the trademark. We read §133.21 as providing an *absolute* exception from

§526 for the import of parallel goods in the case 2a scenario and we read *K Mart* as upholding that construction.[7]

III. *Sections 42 and 32*

Weil argues that even if §526 does not bar importation by Jalyn of the LLADRO porcelain, §42 — which was not specifically addressed in *K Mart*[8] — does. Moreover, Weil contends that nothing in *K Mart* precludes its recovery of damages for infringement under §32 for Jalyn's distribution of the LLADRO porcelain in the United States. We are persuaded, however, because of the relationship that Weil has with

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[7] Our prior holding in Premier Dental Products v. Darby Dental Supply Co., 794 F.2d 850 (3d Cir. 1986), is not contrary to our holding today, and neither is it inconsistent with *K Mart*. *Premier Dental* was a case 1 circumstance in which we held that S526 was applicable to preclude the import of parallel goods. That holding was limited to the instance in which the domestic trademark holder and the foreign manufacturer were separate entities. Specifically,

> [w]e conclude[d] that where a trademark is owned and registered in this country by an exclusive distributor who is *independent* of the foreign manufacturer *and* who has separate goodwill in the product, the distributor is entitled under Section 526 to prevent the importation even of genuine merchandise obtained from the same foreign manufacturer.

Premier Dental, 794 F.2d at 858 (emphasis added).

[8] *See K Mart*, 108 S.Ct. at 1832 n. 1 (Scalia, J., dissenting in part and concurring in part) (noting that 19 C.F.R. S133.21(a), which the majority invokes and which concerns the copying or simulation of trademarks or trade names, is unrelated to S526(a), "but rather implements S42 of the Lanham Trade-mark Act").

Lladro, S.A., that the protections afforded by §§42 and 32 of the Lanham Act are also inapplicable.

Weil's argument on this point has two components: first, it asserts that it owns the United States LLADRO trademark independently of its foreign parent and, pursuant to the territoriality theory attributed to *Katzel*, it is entitled to the full measure of trademark protection provided by the Lanham Act. In that light, Weil contends that §42's preclusion of goods that "copy or simulate" a trademark and that §32's preclusion of marks that "imitate" a registered trademark are applicable — notwithstanding the fact that the goods are genuine and bear the trademark of the manufacturer — because Jalyn's importation of LLADRO porcelain into the United States, without Weil's permission, represents a "copying" of the registered United States trademark.

a. *The "territoriality" theory*

Weil's argument relies in large measure upon a theoretical concept of trademark law, attributed to the Supreme Court's decision in *Katzel*, that is the subject of significant debate in the courts, *compare NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir.) (rejecting the theory and distinguishing *Katzel* on its facts), *cert. denied* ___ U.S. ___, 108 S.Ct. 152 (1987); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986) (same), *cert. denied*, ___ *U.S.* ___, *108 S.Ct. 2033 (1988), with Dial Corp. v. Manghnani Inv. Corp.*, 659 F.Supp. 1230, 1238 (D. Conn. 1987); *Dial Corp. v. Encina Corp.*, 643 F.Supp. 951, 954 (S.D. Fla. 1986); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F.Supp. 1063, 1066 (E.D.N.Y. 1982), *preliminary injunction vacated*, 719 F.2d 42 (2d Cir. 1983). That

theory is also the subject of significant discussion among the commentators. *Compare* Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 T.M.R. 1255, 1257 (1959) (arguing that the holding of *Katzel* should be limited to the circumstances of that case) *with* Knoll, *Gray-Market Imports: Causes, Consequences and Responses*, 18 Law & Pol. in Int'l Bus. 145 (1986) (endorsing territoriality theory). As we discussed above, that theory recognizes the separate existence of a trademark in each territory in which it has been registered. In the present case, the district court was persuaded that the theory should be available to Weil in the circumstances of this case. We do not agree.

In reaching its decision, the district court relied significantly upon the rationale of the Supreme Court's decision in *Katzel*. That case also concerned the import of genuine goods without the consent of the holder of a valid United States trademark. It involved a United States company, Bourjois, that purchased all of the United States business, the good will and rights to the United States trademark in "Java" face powder from the French manufacturer. Bourjois was completely independent of the French company, and its purchase of the rights to the United States trademark in the face powder was made at significant expense. A competitor of Bourjois was able to purchase the face powder abroad, import it into the United States and market it here under the French trademark in competition with Bourjois. The Supreme Court, reversing the decision of the Court of Appeals for the Second Circuit, held that the import of the competing goods infringed the domestic trademark holder's rights.

The Court noted that the French manufacturer would violate its assignment agreement if it marketed the product in the United States itself and similarly, it could not usurp that agreement by benefiting from the sale abroad to Bourjois's United States competitor.

That case, however, does not present the same scenario as the present case. First, and perhaps most significantly, Bourjois was completely independent from the foreign manufacturer. It entered into an arms-length exchange to acquire the rights to the trademark with the clear intent that the foreign manufacturer would not market the trademarked good in the United States. *See Katzel*, 260 U.S. at 691 (noting that the statute authorizing assignments clearly precluded the French manufacturers from directly entering the United States market and distributing the trademarked goods in competition with Bourjois). Moreover, Bourjois obtained control over the quality of the product and, presumably, could have improved the quality of the product that it marketed in the United States while retaining use of the trademark. It had no control over the goods that the foreign manufacturer sold abroad which were imported into the United States and sold with the same trademark. *See NEC Electronics*, 810 F.2d at 1509.

In the present case, no such compelling circumstances exist. Weil is not independent of the foreign manufacturer. Although it was not incorporated by Lladro, S.A., it nonetheless benefits from the corporate relationship that exists.[9] Thus, even if Weil loses some share of its United States market to Jalyn, it

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[9] That corporate relationship began in 1968 when Lladro, S.A. purchased fifty percent of Weil.

nonetheless benefits from the profits it received as part of the corporate entity from which Jalyn purchased the goods abroad. Moreover, if that corporate entity decides that the profit margin from the sale of the goods to Jalyn abroad is not as significant as would be the profit margin from a United States market in which Jalyn did not compete, it has an obvious self-help mechanism: it can cease the sale to Jalyn abroad and thereby eliminate effectively its United States competition with Weil.[10] We do not read the Lanham Act, however, to protect a foreign manufacturer — that either owns or is owned by a domestic trademark

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[10] *Cf. K Mart*, 108 S.Ct. at 1823 (Brennan, J., concurring). Justice Brennan noted that

> if the grey market harms a U.S. trademark holder in case 2a, 2b, or 2c, that firm and its foreign affiliate (whether a parent, subsidiary, or division) can respond with a panoply of options that are unavailable to the independent purchaser of a foreign trademark. They could, for example, jointly decide in their mutual best interests that the manufacturer (1) should not import directly to any domestic purchaser other than its affiliate; (2) should, if legal, impose a restriction against resale (or against resale in the United States) as a condition on its sales abroad to potential parallel importers; or (3) should curtail sales abroad entirely.

We note that additional self-help mechanisms available to the corporate entity in the case 2 circumstance include: sale of the products abroad at the *same* price as they are sold domestically, thereby assuring the same margin of profit; or distinguishing the goods sold abroad — either by producing or packaging or marking them differently, thereby assuring that the *trademark* will not be placed in domestic competition. *See* note 16 *infra*. Because this "panoply" of options is available to the domestic trademark holder in the case 2 scenario, the arguments for extension of the protections provided by the trademark act are much less compelling than they are in the case 1 circumstance.

holder — from competition in the sale of its product in the United States by a domestic importer that it has supplied. Moreover, the LLADRO porcelain that Jalyn imports is *identical* to the porcelain that Weil distributes. *See Weil Ceramics*, 618 F.Supp. at 703 (the district court found that goods sold by Jalyn are "genuine Lladro merchandise and are not a copy or imitation.")[11] Weil has made no contention that, pursuant to its agreement with Lladro, S.A., Weil is entitled to, and does in fact, alter the quality of the porcelain that it distributes in the United States.

In our view, the Court's conclusion in *Katzel* does not represent the establishment of a broad "territoriality theory" applicable to every instance in which a domestic company acquires the United States trademark for a foreign manufactured good. We read that decision as creating an exception to the general

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[11] This is the conclusion reached by the district court. The fact that it made no finding that the porcelain distributed by Jalyn and that distributed by Weil are materially different is significant to our disposition of this appeal. Weil has contended on this appeal that the porcelain imported by Jalyn was of a materially different grade and quality from the porcelain imported by Weil. If true, that fact would provide a stronger argument for Weil's claim of trademark infringement. *See Original Appalachian Artworks v. Granada Electronics*, 816 F.2d 68, 73 (2d Cir. 1987)(holder's trademark was infringed where dolls manufactured abroad were "materially different" from those manufactured in U.S., despite the fact that a single entity owned the trademark worldwide); *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) (Lanham Act protects "the right to control the quality of the goods manufactured and sold under the holder's trademark.") However, we cannot reach that conclusion on the findings of record, and we premise our decision on the assumption that the porcelain imported by Jalyn was essentially identical to that imported by Weil.

application of trademark law in order to protect adequately the interests of domestic trademark holders such as Bourjois.

Our conclusion is consonant with both *K Mart* and *Katzel*, and illustrates the synthesis between those Supreme Court decisions. If placed within the context of the scenarios identified by the Court in *K Mart*, *Katzel* would be described as case 1. *K Mart* clearly held that §526 was intended to protect domestic trademark holders in that type of case and, indeed, §526 was enacted specifically to counter the decision of the Court of Appeals for the Second Circuit in *Katzel* which had reached the opposite result.[12] In our view, *Katzel* was intended specifically to reach the case 1 scenario and extend trademark act protection to domestic trademark holders that are truly independent of the foreign manufacturer. We do not read *Katzel* to extend beyond that circumstance. Indeed, in his explication of *Katzel* in *K Mart*, Justice Brennan noted that Bourjois, the domestic trademark holder in *Katzel*, was "the prototypical (case 1) gray-market victim, [that had] purchased its trademark rights, at arms length and at a substantial cost, from an unaffiliated foreign producer." *K Mart*, 108 S.Ct. at 1822 (Brennan, J., concurring). Justice Brennan stated that it was on the basis of those facts that the Supreme Court extended the trademark act protections to Bourjois. He noted, however, that

> the gray-market encroachment on the Java market *would have been considerably less troubling had Bourjois had control over the*

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[12] *See* H.R. 1223, 67th Cong., 2d Sess. 158, 62 Cong. Rec. 11602-05 (1922).

> *foreign manufacturer's import conduct or over its sales abroad to third parties who might import;* it would essentially have been seeking to protect itself from its own competition.

Id. (emphasis added). Justice Brennan concluded that the reasons that compelled application of §526 to the case 1 instance (i.e. that the independent domestic trademark holder, unlike the affiliated holder, stands to lose the full benefit of its investment as the result of gray-market interference and it has no control over the importation of the competing goods *or* the sale to third parties abroad), do not apply to the case 2 instance. *See id.*, at 1823. In his view,

> [t]hese differences furnish perfectly rational reasons that Congress might have intended to distinguish between a domestic firm that purchases trademark rights from an independent foreign firm and one that either acquires identical rights from an affiliated foreign firm or develops identical rights and permits a manufacturing subsidiary or division to use them abroad.

Id. In that light, Justice Brennan perceived no basis for the conclusion that §526 was intended to reach the case 2 circumstance. In our view, Justice Brennan's opinion also demonstrates that *Katzel* was not intended to extend the provisions of §42 or §32 to the case 2 instance.

The view that we express today is shared by the Court of Appeals for the Ninth Circuit, which noted in *NEC Electronics* that the rationales supporting the Supreme Court's decision in *Katzel* "presuppose the American owner's real independence from the foreign manufacturer, and courts interpreting *Katzel* have

repeatedly emphasized this factor." *NEC Electronics*, 810 F.2d at 1509. The appellate court noted further that "[w]here the American trademark owners is a wholly-owned and controlled subsidiary of the foreign manufacturer, neither of the *Katzel* rationales applies." *Id.* at 1510. *See also Olympus Corp.*, 792 F.2d at 321 (limiting *Katzel* to the "equities" presented by that case and holding that "[a]bsent the *Katzel* situation, [§42] applies only to merchandise bearing counterfeit or spurious trademarks that 'copy or simulate' genuine trademarks").

b. *Goods that "copy," "simulate," "counterfeit," or "imitate"*

Having concluded that *Katzel* did not create a broad territoriality principle that is applicable to every instance of parallel imports, we can more easily resolve the remainder of Weil's argument regarding §42 or §32. Essentially, Weil argues that our reading of §42's prohibition of goods that "copy or simulate" a United States trademark, and of §32's similar proscription of the commercial distribution of goods that "counterfeit" or "imitate" a valid United States trademark, should be informed by the principle attributed to *Katzel*. Accordingly, it argues, Weil's registration of the LLADRO trademark in the United States should be viewed as having created a trademark in the United States that is distinct from any other mark (even the identical mark placed by the same manufacturer) and that that mark should be accorded the full measure of United States trademark law. Weil contends, therefore, that its trademark is "copied" by *any* unauthorized use. In that light, Weil argues that, notwithstanding the fact that the porcelain imported by

Jalyn is genuine and that the marks affixed to the porcelain are placed by the manufacturer just as the marks affixed to the porcelain sold by Weil, the porcelain that Jalyn imports "copies" Weil's trademark.

Because of our conclusion that nothing in *Katzel* extends the trademark act protections to the circumstances of this case, we need not attempt the strained interpretation of the language of §42 or §32 that Weil advocates. Our inquiry is only to discern the plain meaning of the language of those sections and, on that review, we do not reach the conclusion urged by Weil.[13]

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[13] The argument is well made that, having resolved the appropriate scope of S526, there is nothing left to the inquiry regarding S42. Section 526 was enacted specifically in response to the intermediate appellate court's opinion in *Katzel* with the intent to close an interstice that Congress perceived existed in the then existing trademark law and resulted in the decision by the Court of Appeals for the Second Circuit in *Katzel*. Thus, the scope of protection that Congress intended S42 to provide is embodied in S526. (Indeed, some commentators have suggested that, in light of the Supreme Court's subsequent decision in *Katzel*, S526 was rendered a nullity as a redundant statement of what the trademark law already provided.) Moreover, the legislative history reflects that, by passing S526, Congress intended not *only* to amend the customs laws but to amend the trademark law as well. In that light, the reasonable interpretation of the scope of S526 may also be read as the reasonable interpretation of S42. *See K Mart*, 108 S.Ct. at 1824 & 1824 n. 5 (Brennan, J., Concurring); *see also* Note, *Vivitar Corp. v. United States and Osawa & Co. v. B & H Photo: The Issue of Common Control in the Parallel Importation of Trademarked Goods*, 17 Law & Policy in Int'l Bus. 177 (1985).

The alternate view to this interpretation is that the scope of the trademark law was extended by the Supreme Court's decision in *Katzel*, which, although decided subsequent to the passage of S526,

As the starting point for our analysis, we must ascertain the appropriate definition to be given to the terms employed by §42 and §32 of the Lanham Act. In pertinent part §42 provides that

> no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any custom house of the United States.

15 U.S.C. §1124 (1982). Section 32(1)(a) provides that

> (1) [a]ny person who shall, without the consent of the registrant —
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> > (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause a mistake or to deceive; . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

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did not make reference to that section in its holding. (In deciding *Katzel*, the Supreme Court applied S27 of the Trademark Act of 1905, Act of Feb. 20, 1905, ch. 592, S27, 33 Stat. 730, which is identical to the S42 of the present act). It is argued, therefore, that S42 should be read with broader authority, without reference to S526. We will assume, *arguendo*, the correctness of this view. It does not, however, affect the disposition of this case. As we have held, *supra*, *Katzel* is properly read only to apply to the case 1 circumstance. Thus, any extension of the protective authority of S42 that *Katzel* established is limited to that scenario and, accordingly, is not applicable to the present case.

15 U.S.C. §1114(1)(a) (1982). Weil urges that §42 is applicable to provide injunctive relief against importation even if §526 does not and that §32 is applicable to make damages available, and to provide injunctive relief against distribution, even if neither §526 or §42 bar importation. It contends that "the words 'copy or simulate' are neutral terms and are only directed to the physical and visual similarity between the registered mark and the mark on the imported product." Supplemental Brief of Appellee (Dec. 5, 1988) at 2. Consequently, it argues, "[w]hether or not the act of importation is a violation of §42 depends on whether the importation is *with* or *without* the consent of the registrant." *Id.* We can perceive of no basis, either in the specific language of the statute or in its underlying intent that supports such a reading.[14]

In this inquiry of statutory construction, we are assisted again by the Supreme Court's decision in *K Mart* which noted that "[i]n ascertaining the plain

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[14] We note incidentally that, at the time of the enactment of section 42, there apparently was a long-standing regulatory interpretation of section 27, the predecessor of section 42, that the importation of genuine goods with genuine marks was not under the purview of the import provisions of the Lanham Act. Rather the terms "copy or simulate" applied only to counterfeit marks. Congress carried forward section 27's "copy or simulate" language into section 42, fully aware that it had been interpreted to mean "counterfeit," in effect ratifying Customs' interpretation of section 27 when it passed section 42 with identical language. I believe that, under those circumstances, Congress cannot be deemed to have intended the terms "copy or simulate" in section 42 to be given a "plain" meaning. To the contrary, Congress carried over the already interpreted and defined language as a means of continuing the Customs import practices that had been in existence since the passage of section 526 in 1922.

meaning of [a] statute, the court must look to the particular statutory language at issue, as well as [to] the language and design of the statute as a whole." *K Mart*, 108 S.Ct. at 1817 (citing *Bethesda Hospital Ass'n v. Bowen*, 485 U.S. ___, ___, 108 S.Ct. 1255, 1258 (1988); *Offshore Logistics, Inc. v. Tallentire*, 477 U.S. 207, 220-21 (1986)).[15] In the light of these precedents, we look first to the plain language of the statute, which do we do not find to be ambiguous. In our view, the language of these sections reflects Congress' intent to provide a remedy only to the domestic trademark holder who is injured by the distribution of *like* goods, which bear facsimile marks, that result in confusion to consumers or detriment to the goodwill developed by the trademark holder in the trademarked goods. "Trademark law generally does not reach the sale of *genuine* goods bearing a true mark even though such sale is without the owner's consent." *NEC Electronics*, 810 F.2d at 1509 (citing *Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp.*, 707 F.2d 1054, 1057-58 & n.3 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F.Supp. 470, 475 (S.D.N.Y. 1984)).

The terms "copy," "simulate," "counterfeit" and "imitate" have readily comprehensible ordinary meanings. They are used commonly to refer to items that resemble, but are not themselves, the original or genuine artifacts. We are convinced that the Congress understood this commonly held meaning of these terms

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[15] *See also, Park'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985) ("Statutory construction must begin with the language employed by Congress *and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose*") (emphasis added) (citing American Tobacco Co. v. Patterson, 456 U.S. 63, 68 (1982)).

and intended to apply them literally in §§42 and 32.[16] We are, therefore, unpersuaded that those sections are properly applied to the present case.

Our analysis of the "design of the statute as a whole" compels us even more to the conclusion that we have reached. The stated intent of the trademark act is

> to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; to protect registered marks used in such commerce from interference by State, or territorial legislation; to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks; and to provide rights and remedies stipulated by treaties and conventions respecting trademarks, trade names, and unfair competition entered into between the United States and foreign nations.

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[16] Although the statute does not define each of these terms individually, it offers some definitions that we find instructive to our disposition. Section 1127, which is titled "Construction and Definitions; intent of chapter," defines the term "colorable imitation" to mean "any mark which so *resembles* a registered mark as to be likely to cause confusion or mistake or to deceive." 15 U.S.C. S1127 (1982) (emphasis added). Similarly, the term "counterfeit" is defined to mean "a *spurious* mark which is identical with, or substantially indistinguishable from, a registered mark." *Id.* (emphasis added). Neither of these definitions encompass the goods that are at issue in the present case and, in light of this clarifying statutory language, we are further inclined to our conclusion that the sections are not applicable.

15 U.S.C. §1127 (1982). From this statement of purpose, we discern two broad policy goals that Congress sought to foster by this legislation: (1) protection against consumer deception (i.e. purchase of a good that is not what the consumer intended to purchase, but because of packaging or other deceptive imitation of the trademark appears to be the genuine trademarked good); (2) protection of the trademark holder's investment in goodwill and noteworthiness that has been generated by the holder's advertisements and quality from imitative goods over which the trademark holder has no control of quality.[17] Sections 42 and 32 advance these policy goals but neither of the goals is undermined by the importation of genuine goods as in this case. Consumers who purchase Jalyn imported LLADRO porcelain get precisely what they believed that they were purchasing. For that same

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[17] The legislative history of S42 is in accord with this statement of the purposes underlying the Lanham Act. The Senate report of the act noted that

> [t]he purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.

S.Rep. No. 1333, 19th Cong. 2d Sess., *reprinted in* 1946 U.S. Code Cong. Serv. 1274.

The Report stated further, in its enumeration of the specific goals of the Lanham Act, that that act would "secure trade-mark owners in the goodwill which they have built up and . . . protect the public from imposition by the use of counterfeit and imitated marks and false trade descriptions." *Id.* at 1276.

reason, Weil's investment in and sponsorship of its trademark is not adversely affected because the goodwill that stands behind its product is not diminished by an association with goods of a lesser quality.

The only "injury" that we perceive Weil endures is the uncompensated for benefit that its advertisement and promotion of the trademark confers upon Jalyn. That loss to Weil is not inconsequential or insignificant. The remedy for it, however, is not properly found in the trademark law, particularly not in this case. Moreover, as we noted earlier, that "injury" is not completely uncompensated because Weil's parent corporation profits by the sale of Jalyn abroad.[18]

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[18] We note further that this "injury" to Weil occurs as the result of its expenditure of money to popularize the foreign manufacturer's mark in the United States. As one commentator has noted, a domestic company in Weil's circumstance could certainly ensure to themselves the full protections of the trademark law and avoid this "injury" by developing and registering its own trademark for the foreign manufactured goods, and expending its resources popularizing that mark. *See* Vandenburgh, *The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem*, 49 T.M.R. 707, 718 (1959). The article notes, however, that the approach is often less desirable to the distributor and suggests two reasons to explain why: (1) the foreign manufacturer's mark is already known in this country, and therefore the product is easier to sell; and (2) the foreign manufacturer's product is a high quality product that cannot be duplicated by another supplier. *Id.* If these reasons are accurate, they provide further demonstration of the inapplicability of the trademark law to this case. They indicate, as the article suggests, that the " 'source' that the public looks to for the quality of the product [is] really that of the manufacturer rather than that of the distributor," *id.*, and, consequently, that the distributor's "good

It is more than likely that the framers of the trademark act did not contemplate the instance in which the "source" of a trademarked good would be different from its place of manufacture. The primary concern was to protect consumers and trademark holders from spurious imitations. In *Katzel*, the Court recognized that a broader measure of protection was necessary because of the difference in "source" between the trademark holder and the manufacturer in instances in which a foreign manufacturer sells its rights in the United States trademark to a domestic company. The Court, therefore, reasonably extended the trademark protections to that circumstance. In this case, however, for all intents and purposes, the trademark holder and the manufacturer are the same and there is no reason that compels us to read anything in the language of the act and extend further the protections of the trademark act to this circumstance.[19]

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will" in the product is not diminished by the distribution of other genuine goods.

[19] We are aware that our conclusion results in the seeming anomaly that the language of the trademark act will be read one way in light of the circumstances of some cases (i.e., case 1) and that the same language will be read another way in all other circumstances. This result, however, we believe is correct and mandated by the decision of the Supreme Court in *Katzel*. The seeming conflict is made scrutable, however, with the recognition that the source of the added protection to trademark holders in the case 1 scenario is *Katzel* and S526 (as that statute has been construed by the Customs Agency) -- *not* in a subjectively different reading given to the test of the statute.

IV. *Section 33*

Finally, we consider the contention, raised by Weil on appeal, that the district court erred by refusing to adjudicate the claim of infringement predicated upon §33 of the Lanham Act. 15 U.S.C. §1115 (1982). In pertinent part, that section of the trademark act provides that

> [i]f the right to use the registered mark has become incontestable under [the applicable provision] of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed [pursuant to the provisions of this title] . . .

15 U.S.C. §1115(b). As we have noted above, the district court did not reach this issue because it concluded that §33(b) did not provide a private right of action. In the district court's view, §33(b) only "makes an incontestable mark conclusive *evidence* of an owner's right to use the mark. It merely states the evidentiary status of an incontestable mark." *Weil*, 618 F.Supp. at 703. The district court's judgement rests upon a misreading of the Supreme Court's decision in *Park'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189 (1985) and, accordingly, we will reverse.

a. *Private Enforcement of §33(b)*

In its discussion of §33, the district court correctly noted that the Supreme Court's then recent decision in *Park'N Fly* was controlling. In our view, however, the district court's interpretation of that decision is in error. The district court concluded that *Park'N Fly*

held only that the appellate court's decision in that case that §33 could only be used "defensively" was in error. In the district court's view, the Supreme Court's decision provided "that §33(b) could be used either offensively (by the registrant in an infringement action) or defensively. The Court did not, however, hold that §33(b), in and of itself, provided a private right of action." *Weil*, 618 F.Supp. at 704. This conclusion, however, appears internally inconsistent and, more significantly, directly contrary to the holding of *Park'N Fly*.

The district court notes that *Park'N Fly* may be used "offensively *by the registrant in an infringement action*," *Weil*, 618 F.Supp. at 704. The district court does not, however, explain how that use is made other than in the context of a private litigant (i.e., the registrant) seeking equitable enforcement of a registered trademark. Moreover, the district court does not reconcile its interpretation of *Park'N Fly* with the fact that that case itself was a private action by a registered trademark holder seeking injunctive relief pursuant to §33(b). The district court's conclusion regarding §33(b) is infected by the same error of interpretation that requires reversal of its decision regarding §32.

In the district court's view, the evidence of legislative intent that §33(b) not be enforced by private action is that §32 provides the enforcement mechanism for the rights provided by §33(b). We read these sections as providing protection for different rights. Section 33(b) was designed to provide an equitable remedy to the holder of a registered trademark whose ownership or entitlement to use of the trademark has been challenged by another party. Section 32, however, reaches an entirely different circumstance. That

section provides a remedy to trademark holders whose trademarks have been infringed by spurious imitations or copies. In the latter instance, the challenging party is not asserting a right to use the exact mark, which is the circumstance of a §33(b) action, but rather contends that the copy that it employs is not sufficiently similar to the registered trademark to cause confusion. These actions are substantively different, and the district court was mistaken in its view that the remedy for a violation of §33(b) is found in §32.

Park'N Fly demonstrates clearly the Supreme Court's view that §33(b) provides for private enforcement. In its holding that §33(b) was intended to provide a basis for equitable remedy to a registrant whose right to use a trademark has been challenged, the Court noted that "[section] 33(b)'s declaration that the registrant has an 'exclusive right' to use the mark indicates that incontestable status may be used to enjoin infringement by others. A conclusion that such infringement cannot be enjoined renders meaningless the 'exclusive right' recognized by the statute." *Park'N Fly*, 469 U.S. at 198. "Moreover," the Court noted, "the language in three of the defenses enumerated in §33(b) *clearly contemplates the use of incontestability in infringement actions by plaintiffs.*" *Id.* (citing §§33(b)(4)-(6), 15 U.S.C. §§1115(b)(4)-(6) (1982)) (emphasis added).

In the present case, the district court's conclusion that §33(b) did not provide for private enforcement is inconsistent with the legislative intent of the Lanham Act, and with the Supreme Court's holding that "a conclusion that incontestable status can provide the basis for enforcement of the registrant's exclusive right to use a trade or service mark promotes the goals of the

statute." *Park'N Fly*, 469 U.S. at 198. Accordingly, the Court concluded that "[t]he incontestability provisions, as the proponents of the Lanham Act emphasized, provide a means *for the registrant* to quiet title in the ownership of his mark." *Id.* In light of the Supreme Court's guidance in *Park'N Fly*, we will vacate the decision of the district court in this case regarding §33(b).

b. *Inapplicability of §33(b) to the present case*

Our conclusion that the district court erred in its holding that §33(b) does not provide the basis for a private action, however, does not lead us to the conclusion that Weil can prevail on that claim in this case.

In the context of its discussion of the appropriate application of §33(b), the Supreme Court noted that "[t]he Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the good will of his business and to protect the ability of consumers to distinguish among competing producers." *Park'N Fly*, 469 U.S. at 198. This explication of the rationale underlying the Lanham Act is consistent with our holding in this case regarding §§32 and 42, and its application to §33(b) leads us similarly to the conclusion that that section is not properly applied to the circumstances of this case.

As we have noted above, §33(b) was intended to provide the means for a registered trademark holder to "quiet title in the ownership of his mark." *Id.* It is appropriately employed in the circumstance where a competing producer of a *different* good displays a registered trademark in the promotion of its good and

contends on some ground (for example, it adopted use of the mark without knowledge of the registrant's prior use and before the registration under §33(b), *see e.g., Thrifty Rent-A-Car System v. Thrift Cars, Inc.*, 831 F.2d 1177 (1st Cir. 1987), or that the registrant abandoned the use of the trademark, *see e.g., Kardex Systems, Inc. v. Sistemco, N.V.*, 583 F.Supp. 803 (D. Me. 1984)) that the registrant should not have exclusive use of the trademarked item. This circumstance does not exist in the present case. The goods at issue are identical and the trademarks were affixed by the same party in both cases: the manufacturer. In our view, §33(b) was not intended to reach this case and, accordingly, we conclude that summary judgement in favor of Jalyn is appropriate. *Cf. Wynn Oil v. Thomas*, 839 F.2d 1183, 1187 (6th Cir. 1988) (evaluating trademark infringement action that was brought pursuant to §33(b) and noting that its inquiry was "to determine whether consumers will be confused as to the origin of the product" because of something in the marks used to promote different products).

V. *Conclusion*

In light of the foregoing, we will reverse the decision of the district court granting summary judgment in favor of Weil on its claims that §42 and §526 are correctly employed to enjoin Jalyn's importation of LLADRO porcelain. We will also reverse the decision of the district court granting summary judgment on behalf of Weil on its claim that §32 provides damages for infringement for Jalyn's distribution of the porcelain. Finally, we conclude that the district court erred by its dismissal of Weil's claim on §33(b), but notwithstanding that error, summary judgment in

favor of Jalyn is appropriate. Accordingly, we will vacate the district court's judgment as to that claim, and remand with instructions that the district court enter summary judgment on behalf of Jalyn.

All parties to this appeal will bear their own costs.

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Weil Ceramics & Glass, Inc.

v.

Bernard Dash and Jalyn Corporation
Nos. 86-5187, 86-5207

(Filed May 25, 1989)

BECKER, *Circuit Judge*, concurring.

I agree that Weil cannot prevail on any issues, hence I concur in the judgment. Moreover, I join in Parts I and II and footnote 14 of the majority opinion, subject to comments herein, which condition that joinder only peripherally. However, I do not join in Parts III and IV of the majority opinion because I take a different approach to the issues discussed in those sections. I write at length because of the conceptual difficulty of the issues, which implicate the current status of the territoriality, exhaustion and source doctrines in international trademark law, matters which the majority opinion found it unnecessary to address in any detail in view of its approach, yet which are of considerable legal and economic importance.

The majority bases its conclusion with respect to section 32 on the plain language of the Lanham Act[1]. I

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[1] I do not address § 42 in this concurrence, because I join in the majority's conclusion with respect to § 42 as stated in its footnote 14. *See* Typescript at 28 n.14. I agree with the majority's conclusion that § 42 is not available in the context of parallel importation, but I would come to that conclusion based on the

do not believe, however, that our task is so simple. The Lanham Act is only one facet of our governing trademark law, which is composed of the Act, the evolving common law, and international law, e.g., treaties.[2] Therefore, I find it necessary to inquire into the nature and scope of trademark rights.

I do not agree with the majority's "plain reading" and its apparent rejection of the notion that section 32 protects genuine goods. Moreover, while the majority's analysis of the *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), decision is tailored to this case, I believe that the majority has, however unintentionally, created untoward precedent by reading *Katzel* in one sense too broadly (implying that it should apply across the board, whenever the independent markholder is the victim of parallel importation), and in another sense too narrowly (insofar as it seems to suggest that *Katzel* can only be applied where the foreign manufacturer is wholly independent of the domestic markholder). In my view, *Katzel* is an example of a court sitting in equity at work, not a blanket change of trademark law. I also believe that the majority places too much reliance on *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988), insofar as it appears to rely on it as a vehicle for interpretation of all of Weils's claims, even though *K Mart* addressed only §526 of the Tariff Act and not the Lanham Act. I have looked instead to the law of this

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history of the enactment of the section rather than its plain language.

[2] The international status of trademarks is far from settled. *See* Note, Vivitar Corp. v. United States *and* Osawa & Co. v. B & H Photo: *The Issue of Common Control in the Parallel Importation of Trademarked Goods*, 17 L. & P. Int'l Bus. 179, 197 (1985).

Circuit, the Paris Convention, and the history of trademark rights.

I conclude that trademarks are still territorial and that the source theory of trademark law is no longer viable. These conclusions lead me to believe, in contrast to the majority, that under current trademark law, genuine goods with genuine marks can serve as the basis for an infringement suit. I also believe that the record supports the view that Jalyn has imported genuine goods of lower quality than Weil's goods, creating the possibility of a likelihood of confusion. If so, Weil therefore has arguably satisfied the typical section 32 requirements on that ground as well. I do not believe, however, that Weil should prevail in this case.

Weil is a wholly owned subsidiary and as such has a complete unity of interest with its parent, Lladro, and therefore, self-help available to one is *a fortiori* available to the other. By sending into the stream of commerce identically marked goods of mixed quality, but only providing premium quality goods to Weil, and not informing the public of the different levels of quality, Lladro has in effect engineered the possibility of a likelihood of confusion and therefore infringement in this case. This is not the sort of injury trademark infringement actions under the Lanham Act were intended to remedy. And even if there is no material difference in quality, I believe that Weil has failed to make an adequate showing of independent good will. Thus, I conclude that Weil cannot prevail, because it has failed to prove cognizable likelihood of confusion, and I concur with the majority's conclusion that summary judgment in favor of Weil on this section 32

claim should be vacated and judgment entered in favor of Jalyn.

I. SECTION 32 OF THE LANHAM ACT

The majority has apparently rejected the notion that section 32, interpreted in light of the developing common law and international law of trademarks,[3] analytically contemplates protection of genuine goods where the domestic markholder is affiliated with a foreign manufacturer. I disagree. And I find no indication in the language or history of the Act that affiliated trademark owners are to receive lesser protections than nonaffiliated trademark owners. I address these important concepts in light of the doctrinal underpinnings of international trademark law -- the territoriality and source theories -- and of the unity of interest notions implicated by *Katzel* and *K Mart*.

A. *The Territoriality Theory*

The territoriality theory of trademark law was first introduced in this country by the Supreme Court decision of *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923). The majority opinion limits the application of the territoriality theory to the case 1 scenario, relying on *Katzel*. Typescript at 23. I disagree.

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[3] The law of trademarks is an amalgam of statutory provisions, treaties, and common law. "It is generally stated that trade-mark statutes merely grant procedural rather than substantive rights." Note. *Trade-Mark Infringement: the Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 Yale L.J. 557, 561 (1955).

The Supreme Court in *Katzel* permitted an injunction to issue pursuant to section 27 of the Trade-Mark Act of 1905 where a wholly independent domestic corporation and assignee of a foreign corporation's trademark suffered a loss of business due to parallel imports.[4] Justice Holmes wrote: "It is said that the trade-mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade-mark of the plaintiff only in the United States . . . ." *Katzel*, 260 U.S. at 692.

Under Justice Holmes's theory, the validity of a trademark may only be determined within the boundaries of the country in question. Carrying this reasoning to its logical extension, if an entity owns the United States trademark, it has rights under the United States trademark laws regardless of whether the manufacturer is domestic or foreign, affiliated or not. Judge Leval has stated the principles underlying the territoriality theory most eloquently:

> This principle [territoriality] recognizes that a trademark has a separate legal existence under each country's laws, and that its proper lawful function is not necessarily to specify the origin or manufacture of a good (although it may incidentally do that), but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming

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[4] The reasoning of *Katzel* was affirmed by the Supreme Court in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (per curiam), which answered affirmatively questions certified at 292 F. 1013, 1014 (2d Cir. 1922), whether § 27 of the Trade- Mark Law of 1905 barred importation of goods produced abroad and bearing the genuine trademark where a foreign markowner assigned its United States trademark rights to an independent United States entity.

> public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that his goodwill and reputation (the value of the mark) will not be injured through use of the mark by others in domestic commerce.

Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984).[5]

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[5] The territoriality theory was a repudiation of the universality theory that a mark is either universally valid or invalid. *See Osawa*, 589 F. Supp. at 1171 (describing the theory of universality: "if a trademark was lawfully affixed to merchandise in one country, the merchandise would carry that mark lawfully wherever it went"). The universality theory is no longer viable. *See, e.g., K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811, 1822 (1988) (Brennan, J., concurring).

The doctrine of exhaustion developed as a corollary to the universality theory. Under this doctrine, once the markholder has sold an item, the subsequent sale of that item cannot serve as the basis for an infringement suit. The relevant issue for this case with respect to exhaustion is whether the doctrine of exhaustion is meant to apply only within the borders of a sovereign or whether it applies universally, such that a sale in one country prevents an infringement suit in another.

The latter position would make no sense in the context of the territorality of trademarks. "[I]n international trade, a trademark symbolizes the geographically distinct goodwill of the domestic owner of the mark." Note, *The Gray Market Case: Trademark Rights v. Consumer Interests*, 61 Notre Dame L. Rev. 838, 853 (1986). If every time a foreign manufacturer placed its product on the market, the trademark rights were universally exhausted, then the territoriality theory of trademark rights would lose most of its force and the right to control the trademark of an internationally available good in a given country would not be of much value. In fact, if the exhaustion theory were viable, that would mean that once a manufacturer sold the product to the domestic markholder, the product's trademark rights were exhausted and the domestic

Katzel is often invoked as proof of the viability of the territoriality theory in the United States. I do not believe, however, that *Katzel* is sufficient to justify that conclusion, as I discuss *infra*. Rather, we must find other grounds if we are to conclude that the territoriality theory is alive and well in American trademark jurisprudence.

As I read the majority opinion, it requires the conclusion that *Katzel* should only be applied in the situation wherein the foreign manufacturer is wholly independent of the domestic markholder and that it "creat[es] an exception to the general application of trademark law," Typescript at 23, implying that is should apply across-the-board to all situations in which a wholly independent markholder is the victim of

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markholder could not assert his rights under the trademark laws. That makes no sense where trademark rights may rest in nonmanufacturers and the Lanham Act recognizes the validity of the assignment of trademarks.

The more coherent way to view exhaustion in the context of the territorality theory is to view it as applying individually to each markholder such that a markholder only exhausts its own trademark rights upon sale of the item, and not the trademark rights of other markholders in other countries. *See* Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R.* § 133.21, 54 Fordham L. Rev. 83, 109 (1985) ("When local goodwill is established, only the foreign trademarks owner's rights are exhausted by sale to the U.S. trademark owner. Thus, the U.S. trademark owner's rights over its trademark exist until it sells the trademarked good in the domestic market." [footnotes omitted]). Thus, even if the exhaustion theory is valid within the borders of a sovereignty, it cannot be valid with respect to all sales of trademarked goods in light of the viability of the territorality theory in international trademark law.

parallel importation.[6] I would interpret the holding of *Katzel* in a different way.

The powers of a court sitting in equity are to be applied on a case-by-case basis. As I see it, *Katzel* did not create a blanket trademark rule, but rather was a clear exercise of the flexible equitable powers of the Court and an attempt to remedy what was perceived to be unfair in an individual case. I therefore do not believe that *Katzel* mandates protection of independent

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[6] I note some uncertainty as to whether the majority understands *Katzel* as effectively amending trademark law or as a case solely turning on its facts. In contrast to my observation in the text, the majority also seems to say that the *Katzel* decision is not an across-the-board rule, but rather a rule to be applied on a case-by-case basis. It states that this case does not present the "compelling circumstances" found in *Katzel*, Typescript at 21, implying that the result could be different if the circumstances were compelling and finds that "even if Weil loses some share of its United States market to Jalyn, it nonetheless benefits from the profits it received as part of the corporate entity from which Jalyn purchased the goods abroad. Moreover . . . [Weil] has an obvious self-help mechanism: it can cease the sale to Jalyn abroad and thereby eliminate effectively its United States competition with Weil." *Id.* If the majority is attempting an individualized determination of the equities in applying *Katzel*, I believe that to be the better methodology.

It is more likely, however, that it is not applying the rule on a case-by-case basis, because its assertions with respect to "self-help mechanisms" are not supported in the record, but are generalized presumptions about the relationship between wholly owned subsidiaries and their parents. The district court had no facts before it with respect to Weil's and Lladro Exportadora's corporate relationship relating to profits or elimination of competition abroad. At all events, I agree with the majority's implicit assumption that all wholly owned subsidiaries should be treated as having a unity of interest with their parents, as I discuss *infra*.

domestic markholders who are assignees of foreign manufacturers in every instance. I also do not believe that *Katzel* precludes the possibility that an equitable remedy might be available even when the United States company is affiliated with a foreign manufacturer. For instance, in a case in which two affiliated companies have become over the years increasingly independent, such that the two entities are essentially independent, there may be reason for the court to exercise its equitable powers to protect the good will and investment in the trademark that the American company has individually developed over the years. Alternatively, an equitable remedy may also be called for in the case of a foreign company that does not wholly own its American subsidiary, for example, where the foreign affiliated company only owns ten percent of the American markholder's company. *Cf. infra* note 14. As I have explained *supra*, *Katzel* does not militate against the conclusion that an affiliated company may receive trademark protection pursuant to equity.

Although *Katzel* has never been reversed, and hence has some presumptive viability, because I view it as a decision that does not mandate a particular result in later cases, I do not think that it provides sufficient justification for the conclusion that the territoriality theory is alive and well in American trademark law. The key to the conundrum is that the Lanham Act is a statute addressing the rights of domestic trademark holders in the United States, and does not provide explicit guidance with respect to the harder issues of trademark rights in the international context. The place to look for the answer to the question whether the United States recognizes the territoriality theory in the context of international trademark rights is not

domestic trademark law, but rather international law, as expressed in treaties.

As the district court pointed out, the United States is a signatory and member of the Paris Convention for the Protection of Industrial Property, as amended at Stockholm on July 14, 1967, which carries the force of law and recognizes that trademark rights are territorial. *See* 618 F. Supp. 700, 705 n.l. The Convention states that

> A mark duly registered in a country of the Union shall be regarded as independent of marks registered in other countries of the Union, including the country of origin.

Paris Convention, Article 6(3). The Paris Convention is the law in the United States by virtue of Article 6 of the Constitution and is explicitly implemented by the Lanham Act in section 44(b), 15 U.S.C. 1126(b) (1982). *See Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 640 (2d Cir.), *cert. denied*, 352 U.S. 871 (1956); *Davidoff Extension S.A. v. Davidoff International, Inc.*, 221 U.S.P.Q. 465, 467 (S.D. Fla. 1983). Therefore, United States trademark law expressly recognizes trademark rights as territorial. I must conclude therefore that even though the Lladro trademark is owned by others outside the United States, Weil may own the American trademark in Lladro products in the United States, and that those trademark rights are separate from whatever trademark rights the Lladro parents own in other countries. What good these rights do it in this case is, of course, another matter, as I will explain *infra*.

B. *Katzel and K Mart*

The majority opinion further buttresses its conclusion that *Katzel* is inapplicable to the facts of this case by arguing that such a conclusion is consistent with the holding of *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988). I am not persuaded that *K Mart* is helpful on this point. First, *K Mart* addressed the question whether tariff regulation promulgated by the Customs Service precluding importation of gray market goods in certain circumstances were a reasonable interpretation of section 526 of the Tariff Act. The Court found that they were. The Court did not hold that all domestic markholders affiliated with foreign manufacturers are precluded from protecting their rights to their trademarks under the Lanham Act. Therefore, we must be careful in invoking *K Mart* in the Lanham Act context.

Second, to say that a narrow reading of *Katzel* is more consistent with the holding of *K Mart* than a more expansive reading does not provide a basis for the conclusion that section 32 should be construed one way or the other. A narrow reading of *Katzel* is consistent with *K Mart*, because the statute under examination in *K Mart* was passed solely and explicitly in response to the Court of Appeals' holding in *Katzel*, which was reversed by the Supreme Court. *See K Mart*, 108 S. Ct. at 1824 (Brennan, J., concurring)("Congress' sole goal [in passing section 526] was to overrule *Katzel*."). In short, both the Congress and the Supreme Court overruled the Court of Appeals' specific holding in *Katzel*. Therefore, one would expect a later Supreme Court case (*K Mart*) upholding regulations as consistent with a statute passed under the same

impetus as that informing an earlier Supreme Court case (*Katzel*) to be consistent with that earlier case.

Third, and most important in my view, is the fact that even though both the Congress and the Supreme Court responded negatively to the Court of Appeals' decision in *Katzel*, their responses are fundamentally different. They are different because the two branches' powers are different. Legislation, by its nature, provides a blanket rule to be applied to certain specified circumstances. Section 526 of the Tariff Act permits the party in the *Katzel* situation to benefit from a blanket exclusion of parallel imports. The Supreme Court decision provides for equitable remedies in the face of inequities that can only be addressed on a case-by-case basis. In *Katzel*, the Supreme Court provided a second weapon over and above the statutory weapon for the trademark holder harmed by parallel importation.

However, just as there is no reason to believe that the Supreme Court meant for its equitable remedy to apply to every situation in which a domestic markholder is independent of a foreign manufacturer, there is no reason to believe that the Supreme Court in *Katzel* intended to preclude equitable remedies for domestic markholders who are affiliated with foreign manufacturers.

I note in this regard that *Katzel* was explicitly based on section 27 of the Trade-Mark Law of 1905, the predecessor of section 42. *Katzel* did not address section 16, the predecessor of section 32. Therefore, *Katzel* does not directly govern the law of trademark infringement, but only the law of importation of infringing marks. Therefore, aside from its example of the exercise of equitable powers to expand trademark

law, I believe that the holding of *Katzel* helps neither side with respect to section 32. If it expands trademark law, as Weil argues, it only does so in the context of section 42, not section 32; if it is to be strictly limited to its facts, as Jalyn and amicus 47th Street Photo argue, it only limits section 42, not section 32.

To put the distinction between *Katzel* and *K Mart* another way, the trigger for the statutory customs protection described in *K Mart* is independence of domestic and foreign entities. The trigger for the judicial trademark remedy based on *Katzel* is the presence of inequities in a parallel importation context. Thus, I differ with the majority's use of *K Mart* as a yardstick by which to measure the reach of *Katzel* and therefore the scope of section 32.

C. *The Source Theory*

The majority holds that the Lanham Act terms " 'copy' 'stimulate,' 'counterfeit' and 'imitate' have readily comprehensible ordinary meanings." Typescript at 30. But the majority goes on to read *Katzel* as mandating an exception to the ordinary meanings in the case of a domestic entity wholly independent of its foreign manufacturer. *Id.* at 33.[7] Under this view, the statute covers copies, simulations,

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[7] I believe that the majority undercuts its own plain language analysis in footnote 19 of its opinion. Where the "language of the trademark act will be read one way in light of circumstances of some cases . . . and that same language will be read another way in all other circumstances," it seems to me that the plain language cannot control our disposition of the case. Typescript at 33 n. 19. Rather, we must look beyond the plain language and examine the Act and trademark law as a whole.

counterfeits, and imitations and genuine goods of independent domestic entities, and, in short, covers all trademark situations except those in which the domestic entity is affiliated with the foreign manufacturer. As discussed *supra*, I do not believe that the *Katzel* decision resulted in a blanket amendment of the statute such that nonaffiliated companies may get trademark protection for genuine goods but affiliated companies may not. I would seek other authority for the claim that the trademark statute governs or does not govern genuine goods. In my view, that authority arises out of the developing common law of trademarks, particularly *Premier Dental Products Co. v. Darby Dental Supply Co.*, 794 F.2d 850 (3rd Cir.), *cert. denied*, 479 U.S. 950 (1986), in this Circuit. I conclude that the Lanham Act potentially covers all genuine goods, not just those competing with the goods of an independent domestic company.

I believe that the authority for the proposition that the genuine goods come under the purview of the Lanham Act can be found in part in the fact that trademark protection is no longer based solely or even primarily on the source of origin theory of trademark. Early in the history of trademark law, one of the sole bases for protection of trademarks was the protection of the public against confusion as to its source of origin. In other words, trademarks were valuable, because they identified the owner of the good. However, as the law developed, the trademark was no longer merely the source of information with respect to ownership, but rather the public came to believe that the trademark represented a certain level of product quality arising from one source. *See* 1 J. Gilson, Trademark Protection and Practice § 1.03[1](1988); F.

Schecter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813 (1927).

In 1962, Congress amended section 32 of the Lanham Act. The italicized portion of the following provision was deleted: the infringement must be "likely to cause confusion, or to cause mistake, or to deceive *purchasers as to the source of origin of such goods or services.*" J. Gilson, *supra*, § 1.03[1]. The amendment was intended to broaden the scope of the Act so that source of origin was no longer a necessary element of an infringement action. *See Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971); *Osawa*, 589 F. Supp. at 1173. As this Court stated in *Premier Dental*, [O]ne need not manufacture a product to possess goodwill in it. In particular, it has been consistently held that if an exclusive distributor is known as the exclusive domestic source and as the one who stands behind the product in this country, it may own and enforce the trademark.

. . . .

> What is relevant is whether the trademark has become sufficiently associated with Premier to justify the inference that buyers under that name are its customers. It is enough "if the article be known as coming from a single, though anonymous source."

794 F.2d at 856 (quoting *Coty, Inc. v. LeBlume Import Co., Inc.*, 292 F. 264, 267 (S.D.N.Y.), *aff'd*, 293 F.344 (2d Cir. 1923)).

Thus, even if there were a source requirement in the statute, the identity of the source of the goods need not be known by the consumer:

> [A] respectable segment of modern authority following the "origin" view recognizes that

> the consumer is probably not familiar with the manufacturer of the trademarked product he buys. Thus, even where the 'origin' of the product is anonymous, and cannot be named by the consumer, a trademark may still function to denote origin where the consumer assumes that products bearing it come from the same source.

J. Gilson, *supra*, §1.03[1]. Therefore, a trademark is not protected necessarily because it signifies a source of manufacturing origin.

If a trademark signifies a level of quality and not necessarily an identifiable source of origin, then trademark rights need not rest on whether the public can identify the manufacturer of the product, as the majority opinion implicitly suggests. Typescript at 23. Rather, the rights rest on whether the public identifies a particular level of quality when it sees a trademark on a product. Therefore, the markholder need not be the manufacturer, but may have trademark rights in the manufacturer's goods distinct, i.e., in different countries, from those the manufacturer retains. *A fortiori*, a genuine good marked with a genuine mark will have different legal consequences, depending on the country. And there may be a different entity in each country with the right to control those goods with that mark.[8]

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[8] These principles were the foundation of Weil's summary judgment motion -- of the money it spent and the efforts it made to establish the Lladro products provided and distributed by it so as to create public identification of Weil as the source of the buyer's assurance of quality.

The majority states that the "framers of the trademark act did not contemplate the instance in which the 'source' of a trademarked good would be different from its place of manufacture." Typescript at 33. Whether the "framers" contemplated such a possibility or not, the current Act recognizes the possibility that a trademark owner may not be the manufacturer in section 45, which states that a trademark may be "adopted and used by a manufacturer or merchant." 15 U.S.C. §1127.

Hence, I disagree with the majority's reliance on the plain meaning of section 32 and conclude that under the developing trademark law, and more specifically *Premier Dental*, that the source theory of trademark protection is no longer viable. Because the source of origin theory no longer exists as the primary criterion for enforcement of the trademark laws and in view of the viability of the territoriality theory, absent other considerations, I believe that Weil should be able to sustain a challenge under section 32 to Jalyn's parallel importation even though the goods which it claims are infringing are genuine goods with genuine marks.[9]

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[9] I admit that trademark law would be more streamlined if neither § 32 nor § 42 applied to genuine goods. Both Jalyn and amicus 47th Street Photo have argued forcefully that we must interpret these provisions in tandem. However, there is no internal conflict in finding that an article may be imported, but may also form the basis of a trademark infringement suit. As this concurrence makes clear, cases involving genuine goods, although based on sound trademark principles, must be carefully analyzed to ascertain that the aims of the Lanham Act are being furthered. Therefore, even though genuine goods may be imported pursuant to § 42, they may or may not provide the basis for an infringement suit.

D. *Unity of Interest*

In *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984), the Supreme Court said the following about the unity of interest between a corporate parent and its wholly owned subsidiary:

> A parent and its wholly owned subsidiary have a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one.

Id. at 771. In my view, this concept makes as much sense in the trademark context as it did in the antitrust context of *Copperweld*. Therefore, the unity of interest between a wholly owned subsidiary and its parent should be held to exist as a matter of law in the trademark context. Because of their unity of interest, we may attribute those self-help remedies available to the parent to be available *a fortiori* available to the subsidiary. The importance of this concept in this case becomes apparent *infra*.

I turn now to an application of these principles to the case at bar.

E. *Application of Section 32 to the Record*

Section 32(1)(a) of the Lanham Act, 15 U.S.C. § 1114(1)(a) prohibits

> use in commerce [of] any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection

> with which such use is likely to cause confusion, or to cause mistake, or to deceive
> . . . .

The majority states that "[c]onsumers who purchase Jalyn imported Lladro porcelain get precisely what they believed that they were purchasing," concluding that Weil is therefore not injured by Jalyn's imports. Typescript at 32. It is not clear to me that this is correct. The parties have stipulated to the fact that Weil only imports premium quality Lladro products, but Jalyn imports a mixture of premium quality and less than premium quality products. *See* Dist. Ct. Op. at 31 (sealed in published opinion).

The parties stipulated to the following for the purposes of the summary judgment motions:

> There are four levels of quality for the porcelain made by Lladro, S.A. The lowest quality is destroyed and not sold. Porcelain of the next level of quality are designated "seconds" and such items are only sold at Lladro, S.A.'s factory outlet in Valencia, Spain, as "seconds," after the "flower" logo has been physically removed.
>
> The remaining quality categories are "A" first quality and "B" first quality, "A" being a higher grade level than "B". Lladro, S.A.'s grading of its porcelain into "A" and "B" categories of quality is highly confidential and its customers and purchasers throughout the world and in the United States are not made aware of this internal grading of quality. No evidence has been submitted by either party as to the magnitude of the

> difference in quality between "A" first quality and "B" first quality.

Appellee's Br. at 8. All levels bear the same trademark.

Under these circumstances, those consumers buying Lladro in the United States, who have developed expectations with respect to Lladro's products on the basis of Weil's performance over the years, are possibly being deceived as to the quality of the product when they buy Jalyn-imported goods. Arguably then, the importation of the goods by Jalyn is not only resulting in deception of the public, but is also harming Weil's investment in goodwill. Therefore, under both of the policies set forth by the majority,[10] the competing parallel imports in this case could be banned by the Lanham Act. I therefore disagree with the majority's assertion that "Weil's investment in and sponsorship of its trademark is not adversely affected because the goodwill that stands behind its product is not diminished by an association with goods of a lesser quality." Typescript at 32.

Quite to the contrary, Weil's investment in creation of goodwill and reputation for quality could well be harmed by Jalyn's importation of Lladro mixed-quality goods.[11] Thus, I believe that Weil has a colorable claim

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[10] The majority sets forth two policies behind the Lanham Act: (1) "protection against consumer deception" and (2) "protection of the trademark holder's investment in goodwill," concluding that "neither of the goals is undermined by the importation of genuine goods as in this case." Typescript at 31.

[11] It is at this juncture that I take issue with the majority's reliance on the Ninth Circuit case of *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir.) *cert. denied*, 108 S. Ct. 152 (1987). I have dealt substantively with the approach taken in *NEC* in the text of this concurrence. In addition to these substantive

under section 32 as the district court found and that the district court did not err when it determined that Weil could be injured by Jalyn's importation. However, " 'it is a 'familiar rule, that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit nor within the intention of its makers." ' " *K Mart*, 108 S. Ct. at 1821-22 (Brennan, J., concurring) (quoting *Steelworkers v. Weber*, 443 U.S. 193, 201 (1979) (quoting *Holy Trinity Church v. United States*, 143 U.S. 457, 459, (1892))).

Neither the equities of this case not the goals of the Lanham Act permit me to conclude that Weil should find a remedy for its claimed injury in this case. The source of the confusion in this case is not Jalyn, but Weil's parent, Lladro. As discussed *supra*, I would hold that a wholly owned subsidiary and its parent have, as the Supreme Court in *Copperweld* stated, "a complete unity of interest." 467 U.S. at 771. I therefore believe

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objections, I believe that *NEC* is distinguishable from this case on its own terms. In that case, the Ninth Circuit also held that trademark law generally does not reach the sale of genuine goods bearing a true mark where the domestic markholder is not independent of the foreign manufacturer. The court stated that "[t]he reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold." 810 F.2d at 1509. That reason does not operate in this case, because here we have the real possibility of confusion and deception of the public because of the use of the same trademark on apparently similar goods of varying levels of quality. Therefore, I believe that the justification for the rule announced in *NEC* does not apply here and that trademark law should apply even though the goods are genuine and even though the domestic markholder is affiliated with the foreign manufacturer.

that the injury here is self-inflected and that likelihood of confusion has not been established as that phrase was intended under the Lanham Act. To protect Weil's interest in its American trademark, Weil's parent, Lladro, could affix different trademarks to each corresponding level of quality, different trademarks to those products imported into the United States by Weil and those sold elsewhere in the world, and/or inform the public of the differences in quality, thereby precluding the possibility of deception or confusion.[12]

Moreover, if Lladro has forbidden Jalyn from disclosing the different levels of quality, it has engineered the injury to Weil by preventing Jalyn from differentiating its products from Weil's. If Lladro is in fact engineering the possibility of infringement by selling its lesser quality products with the same trademark as its higher quality goods and also prohibiting its buyers from disclosing those differing levels of quality to consumers, then I do not believe that the equities should permit recovery under the Lanham Act even though Weil may have satisfied its technical requirements. In fact, to find otherwise would add an entirely new and mischievous gloss on the meaning of likelihood of confusion.

But even if Lladro would permit Jalyn to reveal the differing levels of quality of its goods so as to mitigate the likelihood of confusion, the fact remains that Lladro has full power to use different trademarks for different levels of quality and thereby prevent the harm to Weil's reputation resulting from Jalyn's

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[12] In fact, Lladro removes the flower logo from the second lowest level of quality products. The products with the lowest level of quality are destroyed. *See supra* Typescript at 20.

importation of lesser quality Lladro products. Lladro also has a more effective remedy against infringement of the trademark owned by Weil; it may refuse to sell its goods to American importers or it may sell only on the condition of restrictions on resale, as the majority notes. *See* Typescript at 21 n.10 (quoting *K Mart*, 108 S. Ct. at 1823 (Brennan, J., concurring)). I would hold therefore that the wholly owned subsidiary whose parent sells products on the open market deficient in quality (as compared to those imported by its subsidiary), but marked identically, may not prevail on a section 32 claim where the only evidence of likelihood of confusion is the claim that different quality goods are on the market with identical trademarks.

In my view, once we refuse to recognize the different levels of quality as support for Weil's argument with respect to likelihood of confusion, Weil could not, in any event, prevail. That was virtually the only evidence relied upon by the district court in concluding a likelihood of confusion. *See* Dist. Ct. Op. at 31 (not in published opinion because under seal, *see* 618 F. Supp. at 713-14). *A fortiori*, even if we set aside the evidence with respect to different quality levels, Weil has failed to produce evidence creating a genuine issue of material fact with respect to likelihood of confusion.

Yet, even if Weil/Lladro had not created the opportunity for infringement by marketing two different levels of quality bearing the identical mark, I do not believe Weil could prevail. This is largely because Weil is a wholly owned subsidiary. Because Weil and Lladro share a unity of interest, I believe that Weil would have an extremely difficult if not impossible time proving a separate and independent

good will. *See Premier Dental*, 852 F.2d at 855. Indeed, the evidence it produced before the district court with respect to advertising and inspection of the products is inadequate to create a genuine issue of material fact as to separate and independent good will in my view.[13]

In summary, nothing in the Act itself or the developing trademark common law and international law would necessarily preclude protection of genuine goods with genuine marks. Thus, analytically, the district court was correct. But the aims of the Act, protection of the public from deception and protection of the markholder from harm to his investment in goodwill, are not served by providing protection in this situation. I would not expand the definition of likelihood of confusion to a situation in which the subsidiary and foreign parent create the confusion by affixing the same mark to goods different in quality. Therefore, I concur with the majority opinion's

---

[13] Moreover, there would be few if any instances in which Weil/Lladro could not prevent the possibility of infringement, making Lanham Act protection inappropriate in most instances. I note in passing that this principle is a corollary to the principles of equity implicit in the *Katzel* decision -- there, complete independence between the manufacturer and the distributor precluded the independent domestic markholder from preventing the infringement. Here, the complete unity of the manufacturer and the distributor/subsidiary makes it possible for the domestic markholder to be charged with prevention of the infringement.

The much more difficult case in my view and one we do not address here today is the case of the less than wholly owned subsidiary. For example, a unity of interest may or may not exist between a subsidiary and its parent where the parent owns 20, 40, or even 60 percent of the subsidiary. I also note that this would be a more difficult case if the infringement suit had been brought, e.g., the day after the purchase of Weil by Lladro.

judgment that the district court erred by granting summary judgment in favor of Weil. I too would enter judgment in favor of Jayln on the section 32 claim.

III. SECTION 33

For the same reasons that I believe that section 32 should be available in the parallel importation context, I also believe that section 33 should be available. But neither should be available in this particular context. Section 33 provides evidentiary advantages for the registrant, precluding the necessity of proving all of the elements of section 32 in order for the party to prevail on an infringement claim, but I do not believe it differs from 32 in any other respect significant for consideration in this case.

IV. CONCLUSION

I sum, I have a fundamentally different understanding from the majority of the state of trademark law in the United States at this time. Under the currently viable theory of territoriality and the fact that the product's source of origin is no longer the basis on which trademark rights are based, I cannot say that a United States markholder affiliated with a foreign manufacturer cannot maintain an infringement suit under the Lanham Act.

I am confident, however, that the Lanham Act was not intended to provide foreign manufacturers the power to engineer the possibility of infringement by labelling goods of different levels of quality with the same trademark and thereby creating confusion.

For these reasons, I would hold that Weil has failed to prove likelihood of confusion as that phrase was intended to be understood under the Lanham Act. In my view, a wholly owned subsidiary and its parent have a complete unity of interest and therefore self-help available to the parent is *a fortiori* available to the subsidiary. Moreover, the spirit of the Lanham Act would not tolerate an expansion of the definition of likelihood of confusion such that a parent may create the likelihood of confusion by affixing the identical trademark to premium and lower quality goods and then sending the lower quality goods into the stream of commerce to compete with its subsidiary's premium goods. In this case, Lladro and therefore Weil could easily prevent the potential confusion and deception of the public and thus preclude any injury from infringement. For these reasons, I conclude that Weil may not recover under either sections 32 or 33 of the Lanham Act.

APPENDIX D

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

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WEIL CERAMICS & GLASS, INC., a New York Corporation, *Plaintiff,*	**Hon. Dickinson R. Debevoise Civil Action No. 84-2157D**
v.	**STIPULATION OF FACTS RE MOTION AND CROSS-MOTION FOR SUMMARY JUDGMENT**
BERNARD DASH and JALYN CORPORATION, a Corporation of the State of New Jersey, *Defendants.*	**(CONFIDENTIAL PURSUANT TO PROTECTIVE ORDER)**

Weil Ceramics & Glass, Inc., the plaintiff in this action, has filed a motion for summary judgment, and the defendants, Bernard Dash and Jalyn Corporation, have filed a cross-motion for summary judgment.

In an effort to eliminate certain factual issues from the summary judgment motions so that the motions can be decided on the legal issues, for the purposes of these

motions only, and without prejudice to conduct further discovery and to present evidence at trial, the parties through their respective counsel, stipulate as follows:

1. Lladro, S.A., a Spanish corporation, manufactures porcelain in Valencia, Spain, on which it places the trademark "LLADRO" which includes a distinctive "flower" logo.

2. Because the porcelain is essentially hand-made, the porcelain made in the factory is of varying quality.

3. There are four levels of quality for the porcelain made by Lladro, S.A. The lowest quality is destroyed and not sold. Porcelain of the next level of quality are designated "seconds" and such items are only sold at Lladro, S.A.'s factory outlet in Valencia, Spain, as "seconds", after the "flower" logo has been physically removed.

4. The remaining quality categories are "A" first quality and "B" first quality, "A" being a higher grade level than "B." Lladro, S.A.'s grading of its porcelain into "A" and "B" categories of quality is highly confidential and its customers and purchasers throughout the world and in the United States are not made aware of this internal grading of quality. No evidence has been submitted by either party as to the magnitude of the difference in quality between "A" first quality and "B" first quality.

5. Only porcelain that has been graded either "A" or "B" is distributed to distributors or retailers throughout the world. The amount of "B" first quality porcelain distributed by Lladro constitutes a significant percentage of the combined volume of "A" and "B" first quality porcelain.

6. Weil Ceramics & Glass, Inc. only imports "A" first quality porcelain for distribution in the United States to its retailers.

7. By virtue of the foregoing, Jalyn and Bernard Dash are not aware of the two categories, "A" first quality and "B" first quality. Further, what has been imported by one or more of the defendants has been a mixture of "A" and "B" first quality merchandise, but the parties stipulate that the ratio of "A" to "B" porcelain is unknown.

8. The parties further make the following stipulation, for the purposes of this motion, with regard to Paragraphs 3 and 4 of the Affidavit of Bernard Dash.

a. Paragraph 3 of the Affidavit is superseded by Paragraphs 1 through 7 of this stipulation.

b. Paragraph 4 of the Affidavit should be modified to read as follows: Dash and/or Jalyn purchase genuine goods from authorized distributors of Lladro, S.A. and/or from authorized retailers who purchase from authorized distributors.

POMS, SMITH, LANDE & ROSE

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APPENDIX E

Title 19, Code of Federal Regulations

§133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§133.2(d) and 133.21(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

. . . .

No. 89-173

Supreme Court, U.S.
FILED
AUG 31 1989
JOSEPH F. SPANIOL, JR.
CLERK

In The

Supreme Court of the United States

October Term, 1989

WEIL CERAMICS & GLASS, INC., a New York Corporation,

Petitioner,

vs.

BERNARD DASH and JALYN CORPORATION, a New Jersey Corporation,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENTS

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28 pp

QUESTIONS PRESENTED FOR REVIEW

1. Do either or both of 15 U.S.C. § 1114 (1982) and 15 U.S.C. § 1115(b) (1982) make damages available for infringement by the importation or sale in the United States of parallel market goods when the American owner of the trademark is affiliated with the foreign manufacturer of those goods which applied the trademark to the goods and sells them directly or indirectly to the parallel market importer?

2. Do either or both of 18 U.S.C. § 1526 (1982) and 15 U.S.C. § 1124 (1982) provide a basis for barring importation into the United States of parallel market goods by the American owner of a trademark when it is affiliated with the foreign manufacturer of those goods which applied the trademark to the goods and sold them directly or indirectly to the parallel market importer?

LIST OF COMPANIES PURSUANT TO RULE 28.1

Jalyn Corporation has no parent company, subsidiaries or affiliates.

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No. 89-173

In The

Supreme Court of the United States

October Term, 1989

WEIL CERAMICS & GLASS, INC., a New York Corporation,

Petitioner,

vs.

BERNARD DASH and JALYN CORPORATION, a New Jersey Corporation,

Respondents.

On Petition for Writ a Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENTS

STATEMENT OF THE CASE

The Statement of Case presented by the petitioner, Weil Ceramics & Glass, Inc. ("Weil"), is misleading and incomplete in material respects but the multiple corrections and additions required would only serve to confuse the Court. Accordingly,

respondents, Bernard Dash and Jalyn (collectively "Jalyn") present a full Statement of the Case which, where appropriate, employs and adopts the language of the Third Circuit in its opinion below.

The appeal to the Third Circuit arose out of the domestic sale of gray market goods or parallel imports by Jalyn. Weil is a wholly owned subsidiary of Lladro Exportadora, S.A., a Spanish corporation, that is a sister corporation to Lladro, S.A., which manufactures fine porcelain in Spain. The specific character of the relationship between Lladro, S.A. and Weil is that they share a common parent corporation, Sodigei, S.A. Sodigei is a Spanish corporation that is wholly owned by the Lladro family. It owns Lladro, S.A. as well as three other Spanish corporations which together own 100% of the stock of Lladro Exportadora, S.A. Lladro Exportadora, S.A. owns 100% of Weil.

In February 1966, Weil, a New York corporation in the business of importing and selling fine porcelain and glassware, became the exclusive distributor in the United States of Lladro porcelain. The following year Weil obtained a valid United States registration for the trademark LLADRO and continued as the exclusive United States distributor of that porcelain.

In 1973, Lladro, S.A. acquired 50% of Weil's stock. At that time, Weil assigned all of its rights to its United States Registration of the LLADRO trademark to Lladro, S.A. In 1977, Lladro Exportadora, S.A. obtained Lladro, S.A.'s shares of Weil stock, as well the remaining 50% of Weil stock, and became the sole owner of Weil. In 1983, Lladro Exportadora, S.A. assigned the United States trademark registration to LLADRO and all of its rights to the LLADRO trademark in the United States back to Weil.

In 1982, Jalyn began importing Lladro porcelain. Jalyn legally obtained the porcelain in Spain from distributors of Lladro, S.A.

and sold it in the United States without the consent of Weil. In 1984, Weil filed a complaint in the United States District Court for the District of New Jersey seeking declaratory and injunctive relief against Jalyn's continued importation of Lladro, S.A. manufactured porcelain and money damages for trademark infringement.

The porcelain imported into the United States by both Weil and Jalyn bear the trademark LLADRO accompanied by a flower logo, which is applied by its manufacturer, Lladro, S.A.

The district court found that the goods sold by Jalyn are "genuine Lladro merchandise and are not a copy or imitation." *Weil Ceramics and Glass Inc. v. Dash,* 618 F. Supp. 700, 703 (D.N.J. 1985). Weil has made no contention that, pursuant to its agreement with Lladro, S.A., Weil is entitled to, and does in fact, alter the quality of the Lladro porcelain that it distributes in the United States.

The Third Circuit concluded that the Lladro porcelain that Jalyn imports is identical to the porcelain that Weil distributes and accepted this as the conclusion of the district court. The Third Circuit found that the fact that the district court made *no* finding that the porcelain distributed by Jalyn and that distributed by Weil are materially different was significant to its disposition of the case on appeal. *Weil Ceramics and Glass, Inc. v. Dash,* 878 F.2d 659, 669 fn. 11 (3d Cir. 1989) (Petitioner's Appendix at B21, fn. 11).

In its complaint, Weil contended that Jalyn's importation and sale of Lladro porcelain violated Weil's exclusive right to use the trademark LLADRO pursuant to § 33(b) of the Lanham Act (15 U. S. C. §1115(b) (1982)). Weil further contended that Jalyn's actions constituted infringement of its LLADRO trademark in violation of §§ 32(1)(a) and 42 of the Lanham Act, 15 U.S.C.

§ 1114 (1982) and 15 U.S.C. § 1124 (1982), and a violation of § 526 of the Tariff Act, 19 U.S.C. § 1526 (1982). After the completion of discovery, Weil and Jalyn filed cross-motions for summary judgment.

The district court dismissed Weil's complaint under § 33(b) because it concluded that it did not provide for private enforcement, finding that the language of § 33(b) did not establish any intent by Congress to create a private cause of action and determining that it merely states the evidentiary status of an incontestable mark, noting that § 32 of the Lanham Act provided an effective remedy for the owner of the mark. The district court granted Weil's motion under § 32 of the Lanham Act on the basis that there was likelihood of confusion. Jalyn argued that the LLADRO trademark was affixed to the procelain by the manufacturer and that the porcelain it sold was no different in character from the porcelain sold by Weil and that, therefore, the goods did not cause the confusion to which § 32(1)(a) refers. In rejecting Jalyn's argument, the district court found that the porcelain goods imported by Jalyn, "are not a copy or imitation," *Weil Ceramic and Glass, Inc.*, 618 F. Supp. at 703, but nonetheless concluded that the proscriptions under § 32 of the Lanham Act applied. Finally, the district court concluded that § 42 of the Lanham Act and § 526 of the Tariff Act precluded Jalyn's continued importation of the Lladro porcelain. Jalyn sought summary judgment in the district court on two bases: first, Jalyn contended that § 42 of the Lanham Act, like § 32, does not provide that genuine goods are subject to claims raised under the Lanham Act. However, the district court held that Jalyn's importation of Lladro porcelain infringed Weil's trademark pursuant to § 32 and was excludable by Customs under § 526 of the Tariff Act and § 42 of the Lanham Act. Second, the district court rejected Jalyn's argument that neither § 526 of the Tariff Act nor § 42 of the Lanham Act could be employed to bar importation of the porcelain because of the federal regulation

that expressly excludes from the prohibition of § 526 of the Tariff Act goods that are distributed by a United States trademark holder that has a corporate relationship with the foreign manufacturer. 19 C.F.R. § 133.21(c)(2) (1987). The district court held that the "common control" exclusion from the prohibition of parallel imports was inapplicable because that exclusion did not define or limit the scope of § 526 of the Tariff Act or § 42 of the Lanham Act, but rather only defined the Customs agency's role in administering the statute. *Id.* at 717. (*See also,* Petitioner's Appendix at B9.)

The Third Circuit Court of Appeals reversed the district court, finding that § 526 of the Tariff Act and the Custom Agency's regulations thereunder were controlled by the Supreme Court's decision in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 231, 108 S. Ct. 1811, 100 L. Ed. 2d 313 (1988) and that the *K Mart* decision required the Third Circuit to reverse the district court in regard to the applicability of § 526 of the Tariff Act.

The Third Circuit also found *K Mart* to be instructive as to the disposition of Weil's contentions respecting § 42 and § 32 of the Lanham Act. *Weil Ceramics and Glass, Inc. v. Dash,* 878 F.2d at 664 (3d Cir. 1989). It concluded that neither of these sections provided the relief sought by Weil and accordingly reversed the district court. *Id.* at 661.

The Third Circuit based its decision that neither § 32 nor § 42 of the Lanham Act reached Justice Kennedy's case 2a scenario in *K Mart* on a thorough analysis of the early Supreme Court decisions in *A. Bourjois & Co. v. Katzel,* 260 U.S. 689, 43 S. Ct. 244 (1923) and *A. Bourjois & Co. v. Aldridge,* 263 U. S. 675, 44 S. Ct. 4 (1923), finding that neither established a broad trademark "territoriality" principle controlling in a case 2a scenario which most resembled the fact situation at bar. The Third Circuit found support for its decision that § 32 and § 42 did not

provide a remedy to Weil in *K Mart, NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506, 1509 (9th Cir. 1987), *cert. denied,* ____ U. S. ____, 108 S. Ct. 152 (1987), and its interpretation of the intent of § 32 and § 42 of the Lanham Act.

The Third Circuit also concluded that the district court erred by dismissing Weil's complaint under § 33(b) of the Lanham Act, 15 U. S. C. § 1115(b) (1982), on the ground that that section did not expressly or implicitly provide a right of private action. The Court of Appeals concluded that § 33(b) may be used by a private litigant in an infringement action and, therefore, reversed the District Court. However, the Third Circuit also found on review, *de novo,* that § 33(b) did not provide the remedy sought by Weil under the facts of this case.

The Third Circuit decided that § 33(b) was intended to provide the means for a registered trademark holder to "quiet title in the ownership of the mark" based upon its interpretation of the Supreme Court's decision in *Park 'N Fly Inc. v. The Dollar Park and Fly Inc.,* 469 U.S. 189, 105 S. Ct. 658, 83 L. Ed. 2d 582 (1985), and that it was appropriately employed in the circumstances where a competing producer of a *different* good displays a registered trademark in the promotion of its good and contends on some ground, such as it adopted use of the mark without knowledge of the registrant's prior use or before the registration under § 33(b) or that the registrant abandoned the use of the trademark, that the registrant should not have exclusive use of the trademarked item. Finding that these circumstances did not exist in the case at bar, where the goods in issue were identical and the trademarks were affixed by the same manufacturer, the Third Circuit determined that § 33(b) did not apply. Accordingly, it remanded to the district court with directions to enter a summary judgment in favor of Jalyn.

In a separate concurring opinion, Judge Becker joined with

the majority on Parts I and II and footnote 14, but not in Parts III and IV because he took a different approach to the issues raised in those sections.

However, Judge Becker found that neither the equities of this case nor the goals of the Lanham Act would permit him to conclude that Weil should find a remedy for its claimed injury in this case. Judge Becker found that Weil and Lladro had a complete unity of interest and, therefore, the injury alleged in this case by Weil was self inflicted and that the likelihood of confusion had not been established as that phrase was intended under the Lanham Act, *Weil Ceramics and Glass, Inc.*, 878 F.2d at 683. Judge Becker held that a wholly owned subsidiary whose parent sells products in the open market which are deficient in quality (as compared to those imported by its subsidiary), but marked identically, may not prevail on a § 32 claim where the only evidence of likelihood of confusion is the claim that different quality goods are on the market with identical trademarks. Judge Becker further found that such fact was virtually the only evidence relied upon by the district court in concluding that there was likelihood of confusion and that the evidence which was produced before the district court with respect to advertising and inspection of products was inadequate to create a genuine issue of material fact as to the existence of a separate and independent good will in Weil as claimed by Weil. *Id.* at 684. Jalyn had taken the position before both the district court and the Court of Appeals that Weil had failed to demonstrate that it had a separate and independent good will in the United States separate and distinct from that of Lladro, S.A. Of course, if this Court were to remand to the Third Circuit if it decided that § 32, § 33(b) and § 42 of the Lanham Act were available to Weil, the Third Circuit could find that Weil had failed to establish a separate and independent good will in the United States and therefore still reverse the district court. Finally, Judge Becker said: "I am confident, however, that the Lanham Act was not intended to provide foreign manufacturers

with the power to engineer the possibility of infringement by labelling goods of different levels of quality with the same trademark and thereby creating confusion." *Id.* at 685. For the same reasons, Judge Becker found that § 33(b) of the Lanham Act was unavailable.

Nevertheless, Judge Becker concurred in result with the majority.

SUMMARY OF JALYN'S OPPOSITION TO WEIL'S PETITION FOR CERTIORIARI

Weil's Petition for Certiorari is essentially based on two premises: first, that the Third Circuit's decision in *Weil* is in conflict with the "reasoning" of the United States Supreme Court in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 231, 108 S. Ct. 1811, 100 L. Ed. 2d 313 (1988), with respect to its application of § 526 of the Tariff Act (Weil Petition at 14), with respect to the "principles" of territoriality as applied to both the Tariff Act and the Lanham Act in *A. Bourjois & Co. v. Katzel,* 260 U. S. 689, 43 S. Ct. 244, 67 L. Ed. 464 (1923) and with respect to the definition of the terms "copy or simulated" as used in § 42 of the Lanham Act, 15 U.S.C. 1124 (1982), as interpreted in *A. Bourjois & Co. v. Aldridge,* 263 U.S. 675, 44 S. Ct. 4, 68 L. Ed. 501 (1923); and second, that the Third Circuit decision in *Weil* is in conflict with decisions of the Second Circuit, the Federal Circuit and the District of Columbia Circuit, all except one of which preceded *K Mart.*

Jalyn's opposition to Weil's Petition for Certiorari, in summary, is based on the following grounds:

1. Weil has conceded that there has been "no direct conflict [with the Third Circuit's decision in *Weil*] with other appellate decisions based on identical facts." (Weil Petition at 11).

2. There is no irreconcilable conflict in "principle" between the Third Circuit decision in *Weil* and any United States Supreme Court decision.

3. There is no irreconcilable conflict between the Third Circuit's decision in *Weil* and any other Circuit decision handed down since *K Mart*.

4. There is no irreconcilable conflict between the Third Circuit in *Weil* and any decision of a circuit decided before *Weil*.

5. Weil is engaging in speculation that the Federal Circuit and Second Circuit will ignore *K Mart*.

6. The Supreme Court could decide in favor of Jalyn on grounds other than its interpretation of the scope of § 526 of the Tariff Act and § 32, § 33(b) and § 42 of the Lanham Act.

Weil has not addressed the fundamental issue as to whether there is an "intolerable conflict" on the same matter of law or fact, not merely an inconsistency in *dicta* or in the general principles utilized. *Insurance Corp. v. Compagnie Des Bauxites,* 456 U.S. 694, 700, 102 S. Ct. 2099, 72 L. Ed. 492 (1982); *United States v. Lorenzetti,* 467 U. S. 167, 104 S. Ct. 2284, 81 L. Ed. 2d 134 (1984).

Weil concedes that: ". . . there has admittedly been no direct conflict in the appellate decisions on identical facts." (Weil Petition at 11). Therefore, it is difficult to comprehend Weil's assertion that certiorari should be granted because, in addition to being of great public importance, "the opinions handed down by courts in gray market trademark cases have contained conflicting analysis, decisions and results which cannot be reconciled." (Weil Petition at 8-9).

Every case that Weil has cited as being in conflict with the Third Circuit below, with but one exception, was decided prior to the United States Supreme Court decision in *K Mart*. Even *assuming, arguendo,* that any "intolerable conflict" exists with these cases, Weil can not simply assume that those circuit courts would render exactly the same decisions both in analysis and result after *K Mart* as they did before *K Mart*. The Supreme Court has had a policy of denying certiorari in the past until there is a conflict between more than just two circuits. Justice Brennan, *Some Thoughts on the Supreme Court's Workload,* 66 Judicature 230, 233 (1985); Justice Stevens, *Some Tnoughts on Judicial Restraint,* 66 Judicature 177, 183 (1982); *McCray v. New York,* 461 U.S. 961, 963, 103 S. Ct. 2438, 77 L. Ed. 2d 1322 (1983).

Moreover, Weil has failed to even assert that the circuits which are in alleged conflict with the Third Circuit would reach a different result than the Third Circuit if presented today with the same facts as in the case at bar.

ARGUMENT

I.

THE THIRD CIRCUIT OPINION IS NOT IN CONFLICT WITH THE PRINCIPLE OF *A. BOURJOIS & CO. v. KATZEL*, 260 U.S. 689 (1923).

The Third Circuit in *Weil* distinguished *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 43 S.Ct. 244, 67 L. Ed. 464 (1923) on the facts and not on principle as suggested by Weil.

Weil has espoused the position that *Katzel* established the theory of "territoriality" and it must be applied irrespective of specific facts, circumstances and equities to preclude all parallel imports or gray market goods.

Weil is silent as to whether it asserts that such an application of the "principle" (actually "theory" or "concept") of territoriality governs the interpretation of § 526 of the Tariff Act, § 42 of the Lanham Act, § 32 and § 33(b) of the Lanham Act, all four or some permutation of the four. Weil has failed to cite any authority for such a sweeping interpretation of *Katzel*. Certainly, *K Mart* provides no support for such a sweeping interpretation of *Katzel*, otherwise Jalyn respectfully suggests that this Court in *K Mart* would have rejected the exceptions found in 19 C.F.R. § 133.21(c)(1) and (2).

With respect to the Tariff Act, 15 U.S.C. § 1526 (1982), Weil asserts, notwithstanding this Court's decision in *K Mart*, that the exceptions under 19 C.F.R. § 133.21(c)(1) and (2) were valid, that Weil can exclude gray market imports by Jalyn under Justice Kennedy's case 2a scenario because Weil has demonstrated factually that it is the independent owner of the U.S. trademark LLADRO, even though it is not independent of the foreign manufacturer, Lladro, S.A. (Petition for Certiorari at 15). Weil reads *K Mart* as affirming only the application of § 133.21 to instances of sham corporations, in which a foreign manufacturer incorporates a shell domestic corporation so that it can control the distribution of the product line in the United States without competition. Weil's theory as to the scope and application of the exceptions under 19 C. F. R. § 133.21 is unsupportable under *K Mart* as was found by the Third Circuit.

First, the Third Circuit found that Weil's affiliation with Lladro, S.A. enabled it to enjoy the benefits of such an affiliation described by the Supreme Court in the case 2a factual setting; that this relationship provided Lladro, S.A. with control of the U.S. market in the goods — under the auspices of the Trademark Act and which § 133.21 intended to preclude — a potential for an undesired monopoly of the domestic market that warrants the

application of § 133.21. *Weil Ceramics and Glass, Inc.*, 878 F.2d at 668.

The Third Circuit read § 133.21 as providing an absolute exception from § 526 for the import of parallel goods in the case 2a scenario and read *K Mart* as upholding that construction. *Id.* at 666.

Rejecting Weil's theory that the exceptions under § 133.21 did not apply to it, the Third Circuit commented that it was the unanimous view of the Supreme Court in *K Mart* that the common control exception of § 133.21 is consistent with § 526, *Id.* at 665, fn. 5, and that at least three of the Justices were of the explicit view that § 133.21 is not only a reasonable construction of § 526 in the case 2a scenario but that it was the correct interpretation of the legislative intent of that statute. *Id.* at fn. 5.

Weil is unable to cite any authority for its position that the exception under § 133.21 should not apply to a case 2a scenario. Weil cites *Vivitar Corporation v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), as support for its position that there is a conflict between the Third Circuit and the Court of Appeals for the Federal Court. Weil ignores the fact that *Vivitar* was decided before *K Mart*, and the instant case after. Therefore, it is pure speculation to assume that the Federal Circuit would rule on the same issue today precisely as it did in *Vivitar* in the light of *K Mart*.

Moreover, Weil has misconstrued *Vivitar* and, in consequence, fails to appreciate the effect that *K Mart* has had on the precedential vitality of *Vivitar*. *Vivitar* found that § 526 did not define the full limit of the "law" as to trademark infringement, but *Vivitar* also did not clearly identify the "law" that it was referencing. Weil has "assumed" that § 526 of the Tariff Act was the "law" referenced. Weil then misconstrues Justice Kennedy's majority opinion in *K Mart* to hold effectively no more

than *Vivitar* held, *i.e.*, that the exclusion found in § 133.21 as applied to the case 2a scenario did not express the full reach of § 526 but was only a reasonable exercise of Customs' supervisory power to exclude automatically.

K Mart, in fact, held that the exclusion found in § 133.21 was a reasonable interpretation of the intent of Congress as to the full reach of § 526, not merely a reasonable exercise of Customs' supervisory authority. A careful reading of *Vivitar* suggests that the Federal Circuit viewed § 526 as a potential remedy for exclusion if a district court first found infringement under the Lanham Act. *Vivitar*, 761 F.2d at 1159. Weil advanced this theory below as an alternative to its interpretation that *K Mart* did not preclude the applicability of the exclusionary provisions of § 526 in a case 2a scenario. Moreover, Weil ignored Justice Brennan's concurring opinion in *K Mart*, joined in by Justices Marshall and Stevens, and relied upon by the Third Circuit below, that:

> the legislative history and purpose of § 526 confirm . . . that if Congress had any particular intent with respect to the application of § 526 to trademark owners affiliated with foreign manufacturers, it was to exclude them from its shield.

Weil Ceramics and Glass, Inc., 878 F.2d at 665, fn. 6.

It is difficult to imagine that any circuit after *K Mart* would find that the exclusions of § 133.21 with regard to a case 2a scenario were an "unreasonable" interpretation of the intent of § 526. Certainly, the Third Circuit in *Weil* did not interpret *K Mart* as Weil would have the Supreme Court now do.

II.

THE THIRD CIRCUIT IS NOT IN CONFLICT WITH *A. BOURJOIS & CO. v. ALDRIDGE*, 263 U.S. 675 (1923) WHICH LACKS SIGNIFICANT PRECEDENTIAL VALUE.

A. Bourjois & Co. v. Aldridge involved essentially the same factual scenario as *Katzel* and the decision was expressly based on *Katzel*. The District of Columbia Circuit reviewed *Aldridge* and found that: " . . . its precedential value is obviously weakened by the defendants' lack of opposition. Cases dealing with 'parallel importation' or 'gray goods' have relied on this weakness in discounting *Aldridge*." *Lever Brothers Co.*, 877 F.2d at 107.

Moreover, as said by Justice Brennan in *K Mart, Katzel* is a "prototypical" case 1 scenario under Justice Kennedy's majority decision. *K Mart*, 100 L. Ed. 2d at 330-334. *Aldridge* must be viewed the same as *Katzel* but of lesser precedential value. Therefore, there is no conflict between the Third Circuit's decision in *Weil* under *K Mart* because *Katzel* and *Aldridge* are distinguishable. Moreover, they have never been authority for the sweeping principles of territoriality espoused by Weil.

III.

THE THIRD CIRCUIT IS NOT IN CONFLICT WITH ANY OF THE CIRCUITS.

Weil asserts that the Third Circuit decision in *Weil* is in conflict with the District of Columbia in *Lever Brothers Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989), the Second Circuit in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987), *Olympus Corporation v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, ____ U. S. ____, 108 S. Ct. 152 (1987), and *El Greco Leather Products Co., Inc.*

v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986), and the Federal Circuit in *Vivitar Corporation v. United States*, 761 F.2d 1552 (Fed. Cir. 1985). Of these decisions, only *Lever Brothers Co. v. United States* was decided after *K Mart*.

A. There Is No Conflict Between the Third Circuit and the District of Columbia Circuit.

There is no conflict in either principle or outcome between the Third Circuit in *Weil* and the District of Columbia Circuit in *Lever Brothers Co.*, which considered and cited the Third Circuit in *Weil* and indicated absolutely no disagreement. *Lever Brothers Co.*, 877 F.2d at 108-09. If the type of intolerable conflict that calls for Supreme Court intervention actually existed, the District of Columbia Circuit would most likely have at least alluded to some conflict with *Weil*.

Lever Brothers Co., which dealt with the application of § 42 of the Lanham Act, is clearly distinguishable from *Weil* on the facts, which differences both circuits specifically addressed. *Id.* at 109, *Weil*, 878 F.2d at 668. *Lever Brothers Co.* involved two *physically different* products manufactured by *different affiliates* and sold under the same trademark wherein there was evidence of actual confusion resulting in consumers' "rage or disappointment". *Lever Brothers Co.*, 877 F.2d at 103.

In *Weil*, the products were found to be identical and manufactured by the same affiliate. The Third Circuit, as well as the District of New Jersey, found that the goods sold by Jalyn were "genuine" Lladro merchandise and were not a "copy or imitation." *Weil*, 878 F.2d at 668. In *Weil*, the Third Circuit expressly stated that the fact that the goods were *not* materially different was significant to its decision and if they *had* been materially different, Weil's argument would have been stronger under the Second Circuit's decisions in *Original Appalachian*

Artworks, Inc. and *El Greco Leather Products Co. Id.* at 668, fn. 11.

The *Lever Brothers Co.* court also commented on the fact that the "precedential force" of *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), was obviously weakened by the defendants' lack of opposition in that case, and that the cases have relied on this weakness in discounting *Aldridge, Lever Brothers Co.*, 877 F.2d at 107.

Lastly, the decision of the court in *Lever Brothers Co.* as to the application of § 42 to its own particular fact situation was tentative and remanded to the district court to permit the parties to brief the legislative history and the administrative practice under § 42. *Id.* at 102, 111. Therefore, it is premature to conclude that there is or will be any significant conflict between the Third Circuit and the District of Columbia Circuit.

B. There Is No Conflict Between the Third Circuit and the Second Circuit.

Weil quoted a mere fragment of the Third Circuit opinion below with respect to the its interpretation of *K Mart* regarding the exception in 19 C.F.R. § 133.21(c)(2) and on that basis alleges the Third Circuit is in conflict with the Second Circuit in *Original Appalachian Artworks, Inc.* and in *Olympus Corporation*. Weil also claims the Third Circuit in *Weil* is in conflict with the Second Circuit decision in *Original Appalachian Artwork, Inc.* and *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986), on the scope of § 32 and § 42 of the Lanham Act. Weil's contention is unsupportable.

Original Appalachian Artworks, Inc. dealt with both § 526 of the Tariff Act and § 32(1)(a) of the Lanham Act. *Olympus Corp.* dealt with § 526 of the Tariff Act, the exception found

in 19 C.F.R. § 133.21(c)(2) (1985) and § 42 of the Lanham Act. *El Greco Leather Products Co., Inc.* dealt with § 32 of the Lanham Act.

With respect to § 526 to the Tariff Act, Weil alleges conflict with *Original Appalachian Artworks, Inc., Olympus Corporation* and *Vivitar,* because the Third Circuit found the exception in 19 C.F.R. 133.21(c)(2) to be absolute against protecting a U.S. subsidiary of a foreign corporation (Pet. Cert. at 15). Weil has taken the statement of the court out of context. The Third Circuit said:

> Moreover, we note that the Court did not limit its holding in *K Mart* to the decision that § 133.21 is a reasonable construction of § 526 only so far as that regulation provides a "presumption" of ownership in the trademark. We read § 133.21 as provding an *absolute* exception from § 526 for the import of parallel goods in the case 2a scenario and we read *K Mart* as upholding that construction.

878 F.2d at 666; Petitioner's Appendix at B15-16.

This must be read in the context of footnote 11 in *Weil* wherein the Third Circuit distinguished *Original Appalachian Artworks, Inc.* and *El Greco Leather Products Co.* on the basis that there were material differences in the products in issue. The Third Circuit said:

> However, we cannot reach that conclusion on the findings of record, and we premise our decision on the assumption that the porcelain imported by Jalyn was essentially identical to that imported by Weil.

Id. at 666, fn. 11, Petitioner's Appendix at B21, fn. 11.

Therefore, there is no conflict between the Third Circuit in *Weil* and the Second Circuit in *Original Appalachian Artworks, Inc.* and *El Greco Leather Products Co.*

Weil also asserts that the Third Circuit is in conflict with *Original Appalachian Artworks, Inc.* with respect to its interpretation of the scope of § 32 of the Lanham Act in connection with goods that "copy", "simulate", "counterfeit", or "imitate".

The Third Circuit found that, "the terms 'copy,' 'simulate,' 'counterfeit' and 'imitate' have readily comprehensible, ordinary meanings. They are used commonly to refer to items that resemble, but are not themselves, the original or genuine artifacts." The Third Circuit was convinced "that Congress understood the commonly held meanings of these terms and intended to apply them literally in §§ 42 and 32." *Id.* at 671, Petitioner's Appendix at B28.

Again, Weil ignores the factual context in which the Third Circuit made its decision below. In *Original Appalachian Artworks, Inc.,* the products bearing the same trademark were *physically different* and, as a result, consumer deception resulted. The Second Circuit in *Olympus Corporation,* cited with approval in *Original Appalachian Artworks, Inc.,* supports the Third Circuit's interpretation of § 42. Weil finds conflict with *Olympus* only because it followed *Vivitar* in finding that the Customs Agency's interpretation of § 526 does not limit the full reach of its protection; that it only limits Customs' obligations to enforce § 526 by excluding goods in the first instance. However, both *Olympus* and *Vivitar* were prior to *K Mart* which effectively modified them. Again, as in the case of *Vivitar* in the Federal Circuit, Weil assumes that the Second Circuit would write the

identical opinions in *Original Appalachian Artworks, El Greco Leather Products Co. Inc.* and *Olympus Corporation* after *K Mart*. Weil simply wants to read *K Mart* out of existence in favor of *Vivitar*.

With respect to § 32 of the Lanham Act, Weil also asserts that *Original Appalachian Artworks, Inc.* is in conflict with the Third Circuit in the case at bar. *Original Appalachian Artworks, Inc.* is distinguishable on the facts, which the Third Circuit fully and completely contemplated as set forth above. Therefore, it is not in conflict with the Second Circuit as to the interpretation of § 32.

Weil's criticism of this Court's decision in *K Mart* with respect to the scope of 19 C.F.R. § 133.21(c)(2) is based upon an assumption of facts which do not exist in the case at bar, *i. e.*, "an unrelated foreign licensee." Weil also appears to assert that there is a conflict between *Original Appalachian Artworks, Inc.* and *K Mart* because in *Original Appalachian Artworks, Inc.*, all worldwide trademarks were owned by the same entity and, therefore, under *K Mart* pursuant to 19 C.F.R. § 133.21(c)(1) and (2), Customs would still permit the goods to be imported. Again, Weil ignores the fact that *Original Appalachian Artworks, Inc.* dealt with materially different goods, not identical goods as the case at bar. Moreover, *Original Appalachian Artworks, Inc.* was dealing with § 32 of the Lanham Act and not automatic exclusions under either § 526 of the Tariff Act or § 42 of the Lanham Act. The court in *Original Appalachian Artworks, Inc.* merely commented, by way of *dicta* respecting its holding in *Olympus Corp.* and the Federal Circuit's holding in *Vivitar Corp.*, that the related company exclusion under § 526 does not limit the reach of the protection of § 526. However, this was prior to the Supreme Court's decision in *K Mart* and it is pure speculation that either the Second Circuit or Federal Circuit would find the same way today as was done earlier in *Olympus Corp.* and *Vivitar* with respect to § 526.

Weil also asserts that the Third Circuit in *Weil* is in conflict with the Second Circuit's decision in *El Greco Leather Products Co.* with regard to the trademark owner's right to control of the quality of goods in United States commerce under the Lanham Act. Weil asserts that the Third Circuit refused to recognize Weil's right to control the quality of products sold in the United States, but that is simply not so and irrelevant to either the principles or the results of the holdings of the Third Circuit in *Weil*.

Weil argued below that it had an absolute right to control the quality or grade of products imported into the United States. It does, as a matter of fact. However, the question is whether Weil can exclude the identical goods of its own affiliate's manufacture merely because there are unrecognizable, alleged differences between the goods it imports into the United States and some of the goods Weil's affiliates sell to third parties in foreign countries, which are then imported into the United States by parallel market importers, merely because it has the theoretical right to control some undiscernable quality of goods which it circulates into the United States marketplace. Weil again ignores the fact that the Third Circuit expressly found that the goods which Weil sells in the United States are identical to or not materially different from the goods sold by Jalyn. If there were material differences, as was the case in *El Greco* and *Original Appalachian Artworks, Inc.*, the Third Circuit has acknowledged that its decision might have been different. 878 F.2d at 668, fn. 11, Petitioner's Appendix at 1321, fn. 11.

C. The Third Circuit Is Not in Conflict with the Federal Circuit.

Weil asserts that the Third Circuit decision in *Weil* is in conflict with the Federal Circuit in *Vivitar* because the Third Circuit interpreted *K Mart* to uphold an absolute exception to § 526 of the Tariff Act under 19 C.F.R. 133.21(c)(2) in a case 2a scenario as defined by Justice Kennedy in *K Mart*. *Weil* reads

K Mart to have gone no further than *Vivitar* and therefore claims a conflict with the Federal Circuit.

Vivitar was decided before *K Mart* and to the extent that it is in conflict with *K Mart*, it has been modified. Moreover, *Weil* is speculating that the Federal Circuit would decide *Vivitar* today precisely as it did before *K Mart*. Weil is simply trying to ignore *K Mart* by unsupportable interpretation in order to create the illusion of conflict.

CONCLUSION

For the reasons presented herein and particularly because the petitioner has conceded that there is no conflict, much less an intolerable conflict, between the decision of the Court of Appeals for the Third Circuit below and any decision of the United States Supreme Court or any Circuit Court of Appeals in cases having the same essential facts, and further because there is no intolerable conflict in the principles and analysis of the Third Circuit below and the Supreme Court in *K Mart* or any case decided by any Circuit Court of Appeals since *K Mart* or before *K Mart* to the extent not inconsistent with *K Mart*, respondents respectfully urge that the Petition for Certiorari be denied.

Respectfully submitted,

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No. 89-173

In the Supreme Court of the United States

October Term, 1989

WEIL CERAMICS & GLASS, INC.,
a New York Corporation,

Petitioner,

vs.

BERNARD DASH and JALYN CORPORATION,
a New Jersey Corporation,

Respondents.

REPLY FOR PETITIONERS

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REPLY FOR PETITIONERS

I. PRELIMINARY STATEMENT

Petitioner Weil Ceramics & Glass, Inc. ("Weil") files this Reply Brief in order to respond to respondents', Bernard Dash's and Jalyn's (collectively "Jalyn"), analyses of the cases and its presentation of the factual background.

Jalyn, without stating why, has represented to this Court that Weil's Statement of the Case is misleading and incomplete. However, Weil's statement is fully based upon the opinion of the district court. (Appendix A)

The Third Circuit's decision should have been limited to whether the district court erred in its grant or denial of summary judgment. Rather, Jalyn, while ignoring a voluntary stipulation (Appendix D) relating to product quality, encouraged the Third Circuit to perform impermissible fact finding with regard to the

quality of the goods that it imports. Without any factual support, and contrary to the stipulation (Appendix D), the Third Circuit concluded that Jalyn's and Weil's goods were identical.

Additionally, Jalyn's explanation as to why the Third Circuit's decision is not in direct conflict with the Second, District of Columbia, and Federal Circuits is simplistic for failing to consider the legal analyses used by these circuits. For these reasons and the reasons contained in Weil's petition, Weil prays that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Third Circuit.

II. THE THIRD CIRCUIT ENGAGED IN IMPERMISSIBLE FACT FINDING WITH REGARD TO THE QUALITY OF THE GOODS IMPORTED BY JALYN

This Court has clearly held that an appellate court must *not* make its own findings of fact. *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 714, 106 S.Ct. 1527, 1530 (1986); *Dennison Manufacturing Co. v. Panduit Corp.*, 475 U.S. 809, 811, 106 S.Ct. 1578, 1579 (1986). However, the Third Circuit violated this principle by making its *own* factual finding that the quality of the porcelain imported by Jalyn was identical to the porcelain imported by Weil. Not only is there no basis for this finding, but on the contrary, it flies in the face of the district court's finding (Appendix A 32) and the stipulation entered into by the parties (Appendix D).

Shortly after Weil filed its motion for summary judgment, the parties stipulated that Weil only distributed A quality, the highest quality porcelain and

that Jalyn distributed A and B quality porcelain in the United States, B being lower in quality than A. (Appendix D) Despite this stipulation, Jalyn attempted to have the district court ignore the stipulation. (Appendix A 32 n. 2) The district court, astonished by Jalyn's attempt to ignore the stipulation, reprimanded Jalyn for its attempt and reiterated that Jalyn would be bound by the stipulation.

Despite the stipulation, Jalyn continues to misrepresent the facts with regard to the different product qualities. In fact, the Third Circuit said that its conclusion that the parties' respective goods were of identical quality was significant to its disposition of the appeal. And it said that if Weil could prove that the porcelain imported by Jalyn was of a materially different grade and quality from the porcelain imported by Weil, Weil's argument for trademark infringement would be stronger. (Appendix B 21 n. 11) This Court should not condone Jalyn's blatant misrepresentation with regard to the different product quality. The Third Circuit should be reversed for its impermissible fact finding made at Jalyn's behest.

III. THE THIRD CIRCUIT DECISION WAS BASED UPON THE UNIVERSALITY THEORY INSTEAD OF THE TERRITORIALITY PRINCIPLE OF TRADEMARK LAW

The Third Circuit refused to recognize the "territoriality" of trademarks and instead resurrected the rejected "universality" theory of trademark law. (Appendix B 21) Courts since *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 43 S.Ct. 244 (1923), have

recognized that trademark rights under the Lanham Act are based upon territorial rights.

In fact, this Court in *K Mart Corp. v. Cartier*, 108 S.Ct. 1811 (1988), continued and reaffirmed the recognition of trademark territoriality. In *K Mart*, the majority invalidated one of the Customs Service regulations at issue. *See*, 19 C.F.R. §133.21(c)(3) (1987). This regulation denied a domestic trademark holder the power to prohibit the importation of goods made by an unrelated foreign licensee. 108 S.Ct. at 1818. In invalidating the regulation, the Court held that under "no reasonable construction of the statutory language can goods made in a foreign country by an unrelated foreign licensee be removed from the purview of the statute." 108 S.Ct. at 1818-19.

In fact, Justice Brennan discusses the evolution of the "territoriality" principle of trademarks from the "universality" theory that was associated with pre-*Katzel* decisions. 106 S.Ct. at 1822-30. He states that the law relating to trademarks has evolved from when the authorized use by a third party worked an abandonment of the trademark to that where territorial trademark licenses are permitted. 106 S.Ct. at 1828-9.

Lever Brothers Co. v. U.S., 877 F.2d 101, 108 (D.C. Cir. 1989), after reviewing the face powder trilogy decisions of this Court, held that trademarks clearly have specific territorial scope. The United States Court of Appeals for the Federal Circuit in *Vivitar Corp. v. United States*, 761 F.2d 1552, 1564 (Fed. Cir. 1985), held in accordance with the principle of trademark territoriality that a function of trademarks is to identify the specific entity which stands behind the

goods sold under the mark, and not the product itself. *See also, Roger & Gallet v. Janmarie, Inc.*, 245 F.2d 505, 509-11 (CCPA 1957). Likewise, the Fifth Circuit has also recognized the territoriality principle of trademark law. *Fuji Photo Film v. Shinohara Shoji Kabushiki Kaisha*, 754 F.2d 591, 599 (5th Cir. 1985).

IV. THE ABILITY TO UTILIZE SELF-HELP TO PREVENT INFRINGEMENT SHOULD NOT DEFEAT A TRADEMARK OWNER'S LEGAL RIGHTS

The Third Circuit concluded that self-help is available to Lladro S.A. as a remedy to Jalyn's unauthorized sales of goods in the United States. (Appendix B 20) However, this "self-help" reasoning was rejected in *Lever Brothers* by the District of Columbia Circuit. *Lever Brothers* held that the self-help suggestion advanced by the Customs Service ignored the reality that as long as third party middlemen and retailers are used, products must be launched in the stream of international commerce with the risk that some purchaser may seek to exploit the opportunity to ride on the U.S. trademark's goodwill by bringing the goods into U.S. commerce. *Lever Brothers*, 877 F.2d at 110.

V. THE THIRD CIRCUIT IS IN CONFLICT WITH THE SECOND, DISTRICT OF COLUMBIA, AND FEDERAL CIRCUITS

The Third Circuit held that 19 C.F.R. §133.21 created an absolute exception to §526 of the Tariff Act. However, this Court in *K Mart* merely held that

Customs regulations §133.21(c)(1), (2), and (4) were reasonable agency interpretations of §526. This Court did not hold that these regulations defined the full scope of §526. *See also Olympus Corporation v. United States*, 792 F.2d 315, 320 (2d Cir. 1986); *Vivitar*, 761 F.2d at 1570.

Jalyn simplistically contends that the Second and Federal Circuit decisions holding that the Customs Service regulations do not determine the full extent of §526 of the Tariff Act have been effectively overruled by *K Mart*. Jalyn's analysis is in error. The reasoning contained in *Olympus* and *Vivitar* is consistent with *K Mart*. The Second and Federal Circuits upheld the Customs regulations by holding that the regulations were permissible interpretations of §526 within the exercise of Custom's enforcement discretion. In fact, the only inconsistency between these circuit decisions and *K Mart* is that *K Mart* "invalidated" one of the Customs regulations.

Additionally, the best evidence of a direct conflict between the Second and Third Circuits can be shown by comparing this district court's decision to the Third Circuit's decision. (Appendix A and B) The district court, in its thorough analysis, relied extensively on Second Circuit precedent before granting summary judgment to Weil on its claim of trademark infringement under §32 of the Lanham Act and on its claim of unauthorized importation under §42 of the Lanham Act and §526 of the Tariff Act. The Third Circuit rejected the legal reasoning relied upon by the district court by holding Weil was not entitled to relief.

Jalyn's attempt to distinguish *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 69

(2d Cir. 1987), strictly based upon differences in the goods, ignores the legal analysis of the Second Circuit. The Second Circuit held that the owner of a United States trademark could prevent the sale in the United States of imported goods made pursuant to a territorially restricted trademark license agreement. In conflict with the Second Circuit, the Third Circuit held that Weil, the owner of a United States trademark, could not prevent the sale in the United States of goods imported without Weil's consent. While the Third Circuit found Jalyn's and Weil's porcelain to be identical, the Weil/Jalyn stipulation establishes that Jalyn imports' lower quality porcelain. The Second Circuit's legal analysis, if used by the Third Circuit, would have barred Jalyn's products. A direct conflict exists between the Second and Third Circuits.

The Third Circuit and District of Columbia Circuit in *Lever Brothers* are in conflict with regard to their interpretation of §42 of the Lanham Act. *Lever Brothers* held that the Customs regulations applicable to §526 of the Tariff Act were inapplicable to §42 because the Customs regulations defeated the purpose of this statute. *Lever Brothers*, 877 F.2d at 105.

Lever Brothers determined that the Lanham Act was designed to protect domestic trademark holders from competitors who seek a free ride on the goodwill of domestic trademarks. *Id.* The Third Circuit, in its decision, focused on whether so-called genuine goods were being imported (Appendix B 30) instead of determining whether Jalyn was using Weil's registered United State trademark without its consent. The unauthorized use of a trademark in U.S. commerce constitutes infringement.

VI. CONCLUSION

For the reasons presented above and in the Petition for Writ of Certiorari, it is respectfully requested that the Petition for Writ of Certiorari be granted.

Respectfully submitted,

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PROOF OF SERVICE BY MAIL

State of California

ss.

County of Los Angeles

I, the undersigned, say: I am and was at all times herein mentioned, a citizen of the United States and a resident of the County of Los Angeles, over the age of eighteen (18) years and not a party to the within action or proceeding; that my business address is 10835 Santa Monica Boulevard, Suite 200, Los Angeles, California 90025; that on September 14, 1989, I served the within *Reply for Petitioners regarding Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit* in said action or proceeding by depositing true copies thereof, enclosed in a sealed envelope with postage thereon fully prepaid, in the United States mail at Los Angeles, California, addressed as follows:

Clerk, United States
Supreme Court
One First Street, N.E.
Washington, D.C. 20543
(Original + 40 Copies)

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(3 Copies)

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on September 14, 1989, at Los Angeles, California.

Claude A. Lagardere
(Original signed)